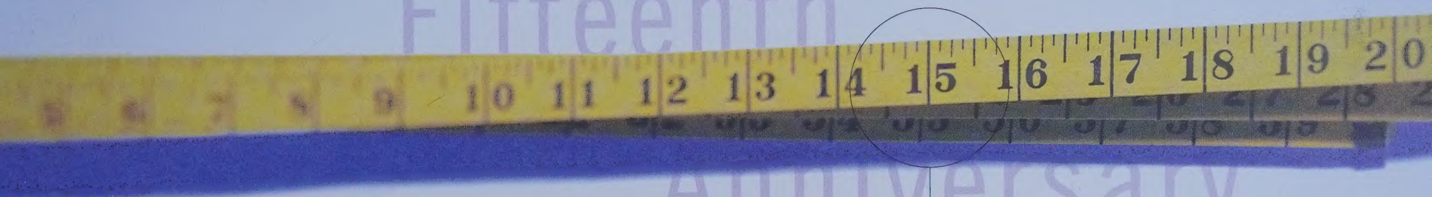
Measuring our growth

Fifteenth Anniversary



CANADIAN WESTERN BANK ANNUAL REPORT 1998

CANADIAN
WESTERN
BANK

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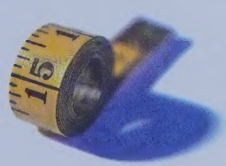
Every year for fifteen years we have measured our growth by the success of the businesses we have supported, the achievements of the individuals we have advised and the joys experienced by families who have realized their dreams with our help.

We will continue to measure our success by the degree we are able to help our customers achieve theirs.



highlights

FINANCIAL HIGHLIGHTS

achieved record net earnings of $19 million, up 20% over last year

increased total assets by 18% to $2.4 billion

issued $50 million of 5.50% convertible subordinated debentures

increased general allowance for credit losses to $9.3 million; kept loss expense down to 0.22% of average loans

increased return on equity to 13.97%

maintained a consistent and slightly improved return on assets ratio of 0.87%

OPERATING HIGHLIGHTS

purchased a majority interest in Canadian Western Capital Limited, a western based investment dealer

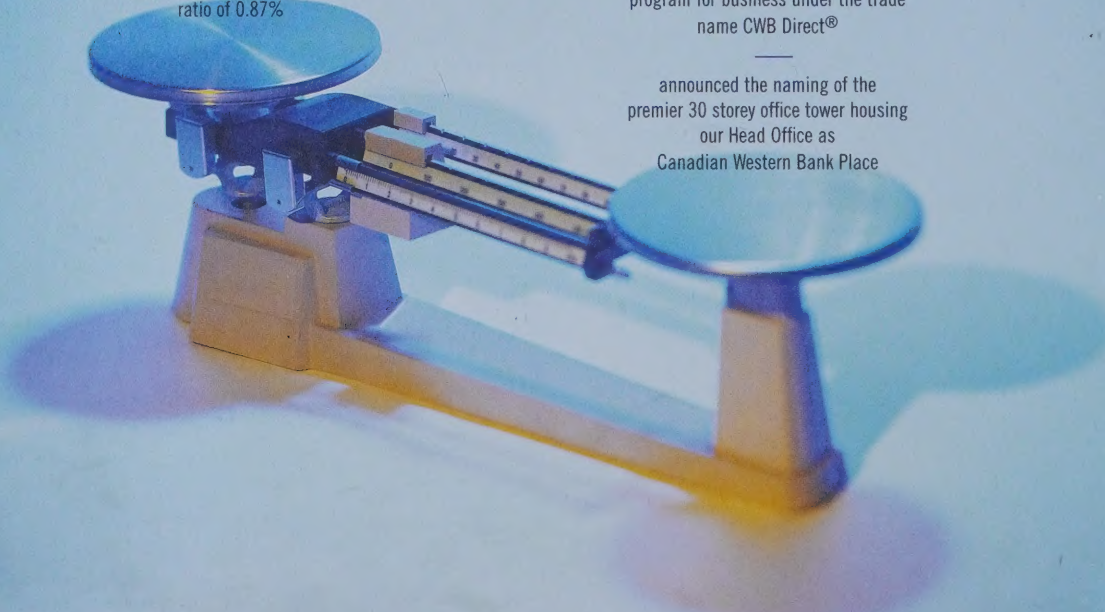
opened a new branch in northeast Calgary

relocated Calgary Main and west Edmonton branches to larger and upgraded locations

consolidated the Vancouver Regional office and Canadian Western Trust Company office in a single location

provided a new PC based account access program for business under the trade name CWB Direct®

announced the naming of the premier 30 storey office tower housing our Head Office as Canadian Western Bank Place

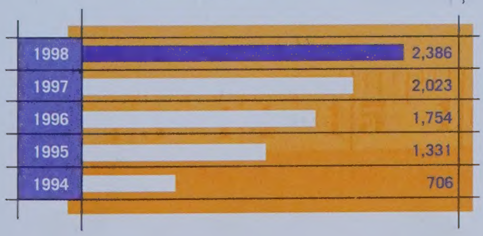


Five Year Financial Summary
($ thousands, except per share amounts)

	1998	1997	1996	1995	1994
Results of Operations					
Net interest income	$ 55,855	$ 45,414	$ 40,731	$ 33,973	$ 18,744
Other income	10,450	11,520	10,466	6,876	4,420
Net income	19,012	15,837	12,822	10,808	4,967
Return on common shareholders' equity	13.97%	13.12%	13.27%	13.36%	10.74%
Return on average total assets	0.87%	0.85%	0.81%	0.88%	0.78%
Per Common Share					
Average common shares outstanding (thousands)	9,421	9,322	8,116	7,420	3,944
Earnings per share					
basic	$ 2.02	$ 1.70	$ 1.58	$ 1.46	$ 1.26
fully diluted	1.77	1.55	1.45	1.33	1.14
Annual dividend	0.30	0.25	0.15	0.10	0.07
Book value	15.39	13.70	12.61	11.37	12.39
Market Price					
High	$ 27.00	$ 22.10	$ 13.00	$ 11.38	$ 10.00
Low	14.75	12.20	9.25	9.13	6.13
Closing market value	17.15	20.25	12.80	10.13	9.50
Balance Sheet and Off-Balance Sheet Summary					
Assets	$ 2,386,478	$ 2,022,951	$ 1,754,072	$ 1,330,596	$ 705,709
Cash resources and securities	320,405	271,883	247,614	174,670	95,006
Loans	1,989,656	1,710,007	1,478,392	1,135,173	599,881
Deposits	2,059,545	1,817,512	1,585,855	1,192,663	634,379
Debentures	87,091	37,116	26,000	8,000	8,000
Shareholders' equity	145,268	128,533	102,554	92,299	48,870
Assets under administration	453,058	395,486	371,798	–	–
Capital Adequacy					
Tier 1 ratio	7.8%	8.4%	8.1%	10.3%	8.6%
Total ratio	11.9%	11.0%	10.2%	11.1%	9.9%
Other Information					
Net interest margin *	2.59%	2.48%	2.59%	2.78%	3.07%
Net impaired loans as a percentage of total loans	0.7%	0.5%	1.0%	1.8%	1.6%
Productivity ratio **	62.1%	64.4%	64.8%	64.4%	68.3%
Number of full time equivalent staff	522	388	359	314	182
Number of branches	23	22	20	20	13

* Net interest income divided by average assets
** Non-interest expenses expressed as a percentage of net interest income and other income

TOTAL ASSETS ($MILLIONS)



EARNINGS* PER COMMON SHARE

* basic

brief history

1982 Western & Pacific Bank of Canada chartered

1984 Bank of Alberta chartered

1988 Western & Pacific and Bank of Alberta amalgamated as Canadian Western Bank

1993 Several former Metropolitan Trust branches acquired

1994 Canadian Western Bank and North West Trust Company amalgamated as Canadian Western Bank

1995 Aetna Trust Company was purchased and renamed Canadian Western Trust Company

1998 Majority interest in Majendie Charlton Securities Limited acquired; company renamed Canadian Western Capital Limited

Canadian Western Bank is the only federally chartered, Schedule I bank based in the West. The Bank serves Canada's four western provinces through a network of twenty-three branches stretching from Victoria to Winnipeg.

The Bank provides sound financial services, innovative and well-priced loan arrangements, and highly competitive rates and features on deposit products. Its trust arm, Canadian Western Trust Company, specializes in the administration of self-directed retirement products in addition to offering deposit and mortgage lending services, with western Canada as its primary market. The Bank also holds controlling interest in Canadian Western Capital Limited, a full service investment dealer.

Mission

To provide competitive full service consumer and commercial banking to Western Canadians. In doing so we aim to provide our shareholders with a sound and profitable return on their investment.

Anniversary

Measuring our growth

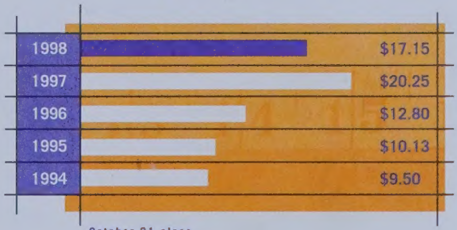
As we celebrate our 15th anniversary, we can point to several exciting financial successes for the fiscal year just past. Profits and assets have both reached record levels, and as you review the information in this report you will discover other areas where we have set new benchmarks and will see that we compare favourably within the industry.

Earnings per share rose 19% to $2.02 from $1.70 last year and on a fully diluted basis were $1.77 compared to $1.55, an increase of 14%. Overall, profit rose to $19.0 million compared to $15.8 million last year, representing an increase of 20% while return on equity increased to 13.97% from 13.12%. Total assets stood at $2.4 billion at year end, up from $2.0 billion last year, representing growth of 18%. The Bank's shares also reached record trading levels and volumes. Our actual loan losses as a percentage of average loans stand at 0.22%, a very low level, and compare well with the best in the industry. Our productivity ratio, at 62.1% has improved over last year's 64.4%.

There has been more than normal activity in the banking industry this year. About a year ago the Canadian Bankers Association, which represents all banks in Canada, launched a public affairs campaign aimed at bringing about a better understanding between the banks and the general public. While we as a bank endorsed the effort as worthy, we actually see ourselves as being closer to the public's expectations than most banks. This is because, from day one, we have structured ourselves to keep genuine personal service and attentiveness to the needs of the business and retail community as our highest priorities.

Two of Canada's largest banks surprised most of the country by announcing their intent to amalgamate. Shortly thereafter another two announced their similar intention. We saw very quickly that, despite the eventual veto of these proposed mergers, many businesses and individuals are looking about for viable banking alternatives. Due in part to this, we are being presented with opportunities to form valuable new relationships with a significant number of customers.

MARKET PRICE PER SHARE



October 31 close

Q How will Canadian Western Capital fit into your strategy?
A It is a very important element. Our other income lags far behind the industry. We can, and will, build their business – specifically wealth management – to contribute to and significantly enhance our earnings per share. And to do so we will deploy relatively little capital, I might add.
Larry M. Pollock, President & CEO

We cater to a select number of niches, none of which are offshore. This has specific appeal to many and has also sheltered us from the economic problems in Asia and elsewhere. There are a large number of potential customers in western Canada to allow the Bank's continued profitable growth and we expect their interest in us as a credible regional domestic player to grow in the period following the decision on mergers.

The debate on mergers overshadowed the release of the Review of the Financial Services Industry (generally known as the MacKay Report). We are pleased with most of the various recommendations contained in it. We support in particular the criticism directed at the high level of capital taxation in our industry. Capital is the essential element of a financial institution's structure, which provides the safeguard for depositors' funds and the foundation for growth. Yet governments have seen fit to discourage it on one hand through taxation while encouraging it on the other through prudent regulation. We also support the fostering of a healthy competitive environment and we are confident in our ability to thrive as one of the competitors.

As we watched these events unfold we were reminded again of the need to gear up to take advantage of opportunity when it knocks – as we expect it will. This year we accessed the capital markets at a time when conditions were very favourable. We were successful in increasing our Tier II capital by $50 million in the form of publicly traded subordinated debt. With this capital secured, we are prepared to support our increasing internally generated growth, and are poised to take advantage of broad strategic opportunities as they evolve.

One such opportunity is taking shape now. As you saw in reports earlier this year, we became the majority shareholder in the investment dealer now known as Canadian Western Capital Limited. We have subsequently set about making the changes we expect will serve successful western businesses in their quest for new capital and will contribute to our objective of increasing fee-based income. It is our aim to become a

Q How do you expect your bank to stack up against potential foreign competition?
A Very well as long as we have a level playing field on taxation, regulatory, and capital requirement issues. In our markets, we are equipped to compete with everyone.
Larry M. Pollock, President & CEO

Q Are you still staying with the "Service First" philosophy?

A Absolutely. We will always be able to add value through our style of delivering our expertise. We have that in the form of banking services through CWB, wealth management advice in the case of CWC, and specialized products through CWT. The market niches, products, and customer base are all there, but it won't work without people – our people – delivering service in a friendly, personable way.

Larry M. Pollock, President & CEO

premier player in western Canada in all facets of investment banking. As our plans are implemented we expect this entity to become a significant contributor to our profitability. We also have plans to broaden the scope of Canadian Western Trust Company in order to expand its profit contribution.

Meanwhile, the expansion of our core business continued. We added a branch in Calgary, and relocated both our Calgary Main and west Edmonton branches into larger and newer premises. We also began the steps necessary to see some branches offer mutual funds early in the new fiscal year, in addition to making other improvements to our product lines, such as a PC based banking system for business and a capital markets index-linked GIC deposit.

Equity markets may continue their current instability over the next short while. This is the primary reason for our recent announcement of a normal course issuer bid, enabled by our strong capital position. Our objective is to maintain, support, and improve shareholder value.

Some concern is being expressed that the economies in western Canada, particularly British Columbia, may soften this year. We see some signs of this, but our loan portfolio remains in very good condition. Our track record in our marketplace – the four western provinces – bears out our ability to lend prudently in such markets and retain the confidence and respect of our borrowers.

Our service culture is impossible without good people and we wish to take this opportunity to salute them. We continue to enjoy one of the best records in our industry for the absence of customer complaints, and we receive testimonials from customers on a regular basis that are the envy of any business. Our staff are justifiably proud of their accomplishments, and as we grow this will in turn make you proud as a shareholder, and reassured with your investment decision.

Jack C. Donald

Chairman

Larry M. Pollock

President and Chief Executive Officer

in focus

To succeed in any business, including banking, a company must find its unique strength and stick with it. We are proud to have retained our unswerving dedication to the Bank's original focus: to meet the needs of Westerners in a personalized, innovative way.

One of those needs is a bank that will finance thriving western companies whose borrowing needs range up to $15 million and more. We have recruited strong performers in oil and gas lending to serve the small to medium producer; and other experts in the areas of construction, real estate development, and the financing and leasing of industrial equipment.

We are molding the capacities of our trust and investment firms to respond to perceived opportunity in wealth management needs of Westerners.

We will continue to enhance our considerable expertise in these and other specific niche markets as we believe these are the areas that will ensure us long-term success and prosperity.

Why have we had such success with the small to medium sized businesses? Because we ourselves are a young, enthusiastic and relatively small western business. As such, we understand the frustrations, challenges, and excitement experienced by other growing western companies better than most players in the financial industry.

"I am attracted by the opportunity afforded through being affiliated with a young and strong bank that knows where it intends to go. Wealth management in the west, for instance, holds huge potential." Brian Bassett, newly appointed President & CEO of Canadian Western Capital, Vancouver


deposit options
in balance

Depositors want the best available return on their savings at the lowest possible risk.

Borrowers want to use these savings with the fewest possible conditions.

We must balance, and meet, the needs of each.

lending services

Today's banking customers expect and demand services, options, benefits and technological conveniences not even dreamed of as little as a decade ago. Canadian Western Bank meets those expectations. But we also recognize that customers who are investing their savings appreciate the level of comfort they experience when they're invited to sit down and talk about it.

In fact, personal customers wishing to access any of our wide range of chequing and savings accounts are offered the choice of counter or sit-down service. And then we make them even more comfortable by providing competitive rates and features on personal deposits.

We also offer a number of convenient transaction options including regular teller service, InTouch® Telephone Banking (which allows customers to conduct a wide range of transactions, including bill payments and account transfers, by phone), plus free access to over 15,000 banking machines through membership in the Interac® and Exchange® networks of instant tellers. Customers can use their Apex® card to 'pay direct' at over 250,000 retail stores.

Many people place their retirement funds (RRSPs and RRIFs) with us because of our highly competitive rates and the security of principal. Others buy regular interest bearing instruments, again because of the rate we offer, but also because the people managing their accounts take the time to listen to their needs and concerns. In addition, hundreds of deposit agents across Canada, in centres large and small, make it possible for their clients to take advantage of the attractive rates and features of our term deposit instruments and retirement products.

Our business customers have the choice of placing deposits into regular current accounts, interest bearing accounts, or fixed term deposits. These deposit products are made available in all 23 branches across western Canada.

About 75 percent of our lending is to small and medium sized companies. We service this business level particularly well, because our own focus and expertise are in the same market as our borrowers. The remainder of our lending is to individuals for mortgages and for such personal requirements as renovations, cars, consolidation and vacations.

We've targeted certain lending segments where we can offer the expertise of our people and in the process carve a niche for ourselves:

- our core strength is commercial lending. These loans are typically arranged to finance assets, such as buildings, or to provide day-to-day operating capital;
- industrial loans usually finance the purchase or lease of commercial and industrial equipment such as a fleet of school buses, a highway tractor, or logging equipment;
- construction and real estate project financing is conducted quickly and successfully as a direct result of the vast market knowledge and experience of our people; and
- energy lending is offered primarily through our Calgary offices and is a market segment in which our experts have been players for years.

We also offer residential mortgages, personal loans, lines of credit to individuals, and the associated services on a fully competitive basis.

"Senior management visits our branch regularly. The people running the Bank want to know what we hear at the branch from a customer viewpoint" Gladys Cochrane, Loan Admin Officer, Calary Chinook


on course

Four of the large Canadian banks announced merger aspirations with the stated objective of furthering the Canadian presence in the global market-place. We see this rapidly evolving environment as ultimately providing many opportunities in the regional and domestic market we remain committed to serving.

This is just another example of how we use our size to our advantage. As a Schedule I bank, we bring strength and stability to a banking relationship, and because we are much smaller than the 'big six' banks, we are in a better position to really understand the businesses in the West. We conduct our operations and make our decisions in the same environment as our customers, giving us much in common with them.

We are aware of the inevitability of constant change brought about by new technologies. Our people constantly seek out and investigate any developments that may affect the way people do their banking. We do not, however, incorporate each innovation into our operations until we have assessed its possible benefits for our customers and for the Bank itself. Only when we are convinced that a new product, method or modification will be advantageous and/or profitable, will we implement it. Our small size and resultant agility allow us to move quickly.

We believe that our steady, enviable growth pattern is the result of our ability to recognize good opportunities, anticipate our customers needs, think innovatively, and act responsively.

Q Why did you announce you would buy your own shares back?

A When our shares were trading at $14.75 we would have enhanced shareholder value by repurchasing our own stock. We have adequate capital, and would initiate action if the trading price were to return to a low level.

Larry M. Pollock, President & CEO


with a smile

From the moment we opened our doors fifteen years ago, we have been known for our warm, personable service and understanding attitude toward customers – traits which some people think are out of character for a bank.

Although it's true we've never quite fit the mold that's expected of a bank, we believe our service is, in fact, our greatest strength and is the chief reason we've been able to grow and flourish in a market that has long been dominated by the 'big six' Canadian banks. Our customers tell us they enjoy all the extra care and attention we give them. They like the fact they can choose either counter service or sit-down service, and they appreciate the fact that we look after their transactional banking needs capably and efficiently.

We also provide our customers with continuity in their banking relationships. While most banks train personnel by moving them from position to position through a series of branches, at Canadian Western Bank we tend to hire well-trained, experienced people and place them in permanent positions that are a perfect fit. So when a customer forms a bond of mutual trust with the personnel in a particular branch, they'll be able to continue that relationship for years to come.

Our customers tell us we're strong on service, and we intend to build on that strength.

"I was the Bank's first employee! Over the past fifteen years I have watched our staff grow to over five hundred and I am proud to be part of the evolution of the Bank to where it is today." Esther Edwards, the Bank's first employee, Corporate Office, Edmonton


in
sync

A truly successful business understands the importance of working in harmony with both industry and the community.

PARTNERSHIPS

Canadian Western Bank continues to form valuable alliances and affiliations across the country and beyond.

Our subsidiary, Canadian Western Trust Company, enables us to offer our customers experience and expertise in the administration of self-directed retirement funds.

Our interest in Canadian Western Capital Limited provides us with access to the investment industry and equity markets for our clients.

An affiliation with Crown Life of Regina provides us with access to expertise in the insurance industry.

Our interest in Bank Northwest of Bellingham will help us to explore future expansion prospects in the United States.

COMMUNITY

Our Bank is committed to supporting worthy charitable, educational and artistic programs throughout western Canada. Many of the activities our people have chosen to become involved with are less visible than sponsorship of a major sporting event or similar affair. The Bank and its employees prefer to go out into the community, get involved, and work to make the quality of life better for everyone.

The Bank believes in retaining employees in a branch or department on a long-term basis, so our people tend to be less mobile than bankers of the past. You will see our staff members participating in many worthwhile community activities. They are the faceless scout and guide leaders, the soccer coaches, the music parent volunteers and door-to-door canvassers – truly an integral part of our community.

"This is different from a big bank. You can see where opportunities will open up quickly." Jay Campbell, Management trainee graduate, Calgary Northeast


insight
2002
JANUARY
1999

"Western Canada continues to offer superb prospects for innovative businesses. We're here to back them and to thrive along with them," says President & CEO Larry Pollock. "When they succeed, we succeed."

It is our intent to sustain the balanced, responsible growth strategy that has contributed to the Bank's success. This means an ongoing commitment to serving the needs of our niche market which is retail and commercial business. We intend to do this by continuing our successful market penetration of the western provinces through well-researched opportunities and expansion of our branch network.

We will continue to reward our employees for their dedicated customer service by providing them with security, advancement and personal development opportunities.

We will proceed with our objective to conduct business in the West with due respect for its citizens and the environment.

YEAR 2000 PROGRAM

We have recognized that the arrival of the year 2000 is a significant event that will affect most computer systems including the Bank's internal systems, the software and systems provided by third parties, data exchange interfaces and many other computer systems that we rely on directly and indirectly in other aspects of our operations. We have adopted the "Year 2000 Project – Best Practices" issued by the Office of the Superintendent of Financial Institutions. We are targeting to have all internal systems tested and Year 2000 ready by December 31, 1998. We are also encouraging third party providers, other suppliers, and especially our customers to meet the same target date.

Q What will Banking reform do for Canadian Western Bank?
A Many of the MacKay report recommendations are positive for banks. The most encouraging areas are in the areas of recommended reductions in capital taxes, and changes to the methods of accounting for business combinations.
Larry M. Pollock, President & CEO

Since 1990 the Bank has given special recognition in the form of Chairman's Awards and President's Awards to a select number of employees. Employees below the executive level are nominated by their peers based on above average contribution and commitment to the Bank.

These awards are accompanied by cheques in the amounts of $1,000 and $250 respectively. This year's award recipients are:

CHAIRMAN'S AWARDS

Gillian Hardman Edmonton 103rd Street Branch

Tracy Keller Mortgage Administration, Canadian Western Trust

Shelley Murray Finance Department, Corporate Office

PRESIDENT'S AWARDS

Wendy Funk Finance Department, Corporate Office

Dianne Popadinac Real Estate Loans, Vancouver Branch

Anita Rosdahl Courtenay Branch

Marlene Sarafinchan Edmonton Main Branch

Sharon Thompson Calgary Chinook Branch

Terri Todd Administration, Corporate Office

Another way of rewarding good employees is through our staff suggestion plan – SPICE – Staff Participating In Creating Excellence. Three examples from a large number of winners are:

Shelly Campbell and Jennifer Cyr (Vancouver), who suggested improvements to accounting for interest on late loan payments

Bev Foord (Regina), who suggested a more efficient number of cheques in a standard order

Stan Plasier (Treasury Department), who suggested a profit improvement opportunity in the foreign exchange area

Financial Report

Management's Analysis of Operations and Financial Condition

Key Performance Indicators

	1998	1997	1998/1997 Increase (decrease)
Net income ($ thousands)	$ 19,012	$ 15,837	$ 3,175
Earnings per common share			
basic	$ 2.02	$ 1.70	$ 0.32
fully diluted	1.77	1.55	0.22
Productivity ratio (expenses as a percentage of total revenue) [1]	62.11%	64.43%	(2.32)%
Return on common shareholders' equity	13.97%	13.12%	0.85 %
Return on average total assets	0.87%	0.85%	0.02 %

(1) A decrease in the ratio reflects improved productivity

OVERVIEW OF 1998

Consolidated net income for the year ended October 31, 1998 was $19.0 million, an increase of 20% from $15.8 million reported in 1997. Basic earnings per share of $2.02 and fully diluted earnings per share of $1.77 increased 19% and 14% respectively over the previous year. The return on common shareholders' equity improved to 13.97% from 13.12% in 1997 while the return on assets rose to .87% compared with .85% last year. The improvement in results was attributable to increased net interest income of $10.4 million or 17% due to growth in average interest bearing assets and an increased net interest margin. In achieving this growth non-interest expenses were contained to an increase of $4.5 million or 12%.

Total assets increased by 18% from one year ago to reach $2.39 billion. Cash resources and securities increased by $48 million, providing 13% of the total asset growth while loans provided 77%, increasing by $280 million to $1.99 billion. Shareholders' equity and subordinated debentures increased by $67 million to $232 million. This growth includes a $50 million, 10 year, 5.50% subordinated debenture, issued on March 31, 1998. The total capital adequacy ratio at October 31, 1998 was 11.9% (1997 – 11.0%) with a Tier 1 component of 7.8% (1997 – 8.4%).

Net income for 1998 includes a loss of $1.6 million related to Canadian Western Capital Limited ("CWC"), the Bank's investment dealer subsidiary, which is undergoing major restructuring. Excluding this loss, growth in net income would have been 30% as earnings per share would have been $0.17 greater and return on equity and return on assets would have been 15.09% and 0.95% respectively. Subsequent to the completion of the restructuring, expected early in 1999, a significant improvement in results is anticipated which will contribute to the Bank's strategic objective of expanding fee-based revenue. See also Note 17 to the Consolidated Financial Statements.

NET INTEREST INCOME

Table 1 – Net Interest Income
($ thousands)

	1998				1997			
	Average Balance	Mix	Interest	Interest Rate	Average Balance	Mix	Interest	Interest Rate
Assets								
Securities and deposits with regulated financial institutions	$ 240,009	11 %	$ 10,841	4.52 %	$ 196,976	11 %	$ 8,543	4.34 %
Loans								
Securities purchased under resale agreements and call loans	24,895	1	1,177	4.73	16,752	1	522	3.12
Residential mortgages	265,857	12	17,997	6.77	257,057	14	18,757	7.30
Other loans	1,569,589	73	127,951	8.15	1,318,020	72	104,095	7.90
Total loans	1,860,341	86	147,125	7.91	1,591,829	87	123,374	7.75
Total interest bearing assets	2,100,350	97	157,966	7.52	1,788,805	98	131,917	7.37
Other assets	60,225	3	–	0.00	39,028	2	–	0.00
Total Assets	$2,160,575	100 %	$ 157,966	7.31 %	$1,827,833	100 %	$ 131,917	7.22 %
Liabilities								
Deposits								
Demand	$ 33,066	2 %	$ –	0.00 %	$ 25,842	1 %	$ –	0.00 %
Notice	186,386	9	4,433	2.38	151,698	8	1,803	1.19
Fixed term	1,662,809	76	93,342	5.61	1,460,738	80	82,511	5.65
Total deposits	1,882,261	87	97,775	5.19	1,638,278	89	84,314	5.15
Other liabilities	76,697	4	–	0.00	38,140	2	–	0.00
Debentures	66,406	3	4,336	6.53	30,644	2	2,189	7.14
Shareholders' equity	135,211	6	–	0.00	120,771	7	–	0.00
Total Liabilities	$2,160,575	100 %	$ 102,111	4.73 %	$1,827,833	100 %	$ 86,503	4.73 %
Total Assets/Net Interest Income	$2,160,575		$ 55,855	2.59 %	$1,827,833		$ 45,414	2.48 %

Net interest income is the difference between interest and dividends earned on assets and interest expensed on deposits and other liabilities, including debentures. Net interest spread, or margin, is net interest income as a percentage of average total assets.

In 1998, net interest income increased by $10.4 million, or 23%, due to:

- increased average interest bearing assets of $312 million (17%); and
- increased net interest spread to 2.59% from 2.48%.

The increased spread was primarily the result of:

- an increase in average prime, from 4.80% to 6.44% year over year, which has a positive impact due to the composition of our loan and deposit portfolios; and
- an increase in the higher yielding commercial borrowing component of our loan portfolio.

In 1999 we expect:

- interest rates will decrease with a downward movement in prime rate; and
- the yields on securities and net interest spread will be comparable to 1998.

As discussed in the Interest Rate Risk section, the portfolio has a positive gap with maturing assets exceeding maturing liabilities during the one year time frame. If market rates increase this would have a positive impact on spreads.

Table 2 – Other Income
($ thousands)

	1998	1997	1998/1997 Increase (decrease) $	%
Credit related	$ 6,729	$ 6,423	$ 306	5%
Retail services	1,964	1,614	350	22
Trust services	1,165	1,113	52	5
Loan administration and other (1)	526	1,459	(933)	(64)
Net gains on securities sales	66	911	(845)	(93)
Total	$ 10,450	$ 11,520	$ (1,070)	(9)%

(1) Other includes gains and losses on capital asset disposals, the Bank's share of CWC's fee-based income, foreign exchange services and other miscellaneous non-interest revenues.

OTHER INCOME

Other income, which includes all revenues not classified as net interest income, decreased $1.1 million in 1998 to $10.5 million. Notable changes include:

- increased credit and retail fees of $656,000 due to loan and deposit growth and increased activity in the retail branches;
- increased loan administration fees, due to a $750,000 one-time contingency fee earned on the collection of an administered loan;
- a decrease in other due to the Bank's share of CWC's loss, which totalled $1.6 million; and
- decreased gains on securities sales due to rising interest rate markets.

Other income as a percentage of total revenue was 6% in 1998 compared to 8% in 1997. In 1999 total other income is expected to improve as the restructuring of CWC is expected to make a positive impact.

NON-INTEREST EXPENSES

Non-interest expenses increased $4.5 million to $41.2 million in 1998 due to:

- increased salaries and employee benefits primarily from an increase in full time staff complement to accommodate growth;
- higher volumes of activity as a result of continued growth; and
- increased rental of premises costs of $577,000 from new and expanded branches and some resulting overlap of lease terms.

The productivity ratio improved to 62.1% as the rate of growth of revenues exceeded that of non-interest expenses. Non-interest expenses as a percentage of average assets was 1.88% in 1998, a significant improvement over the 1.98% recorded in 1997. This means overhead costs grew at a slower rate than growth in assets.

In 1999 we expect:

- the full time staff complement will increase by approximately 6% to accommodate growth in volumes and activity at the branches;
- other increases in non-interest expenses will be primarily attributable to volume increases from growth; and
- some improvement (i.e. decrease) in the productivity ratio.

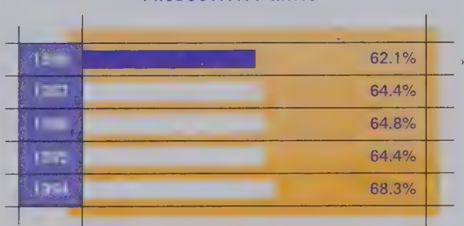
Capital expenditures of $1.3 million are budgeted for 1999 and will be funded from general operating revenues. Approximately 40% of this total relates to proposed expenditures on computer hardware and software and another 40% relates to leasehold and building improvements. A new banking system, originally budgeted for in 1998, has not yet been purchased. The estimated cost for this is $3.0 million although it is not included in the 1999 capital budget due to uncertainty of the purchase date. At year end there were specific commitments for approximately $100,000 of these capital expenditures.

Table 3 – Non-Interest Expenses

($ thousands)

	1998	1997	1998/1997 Increase (decrease) $	1998/1997 Increase (decrease) %
Salaries and Employee Benefits				
Salaries	$ 18,624	$ 16,590	$ 2,034	12.3 %
Employee benefits	2,772	2,421	351	14.5
Total	21,396	19,011	2,385	12.5
Premises				
Rent	3,263	2,686	577	21.5
Depreciation	682	623	59	9.5
Other	645	750	(105)	(14.0)
Total	4,590	4,059	531	13.1
Equipment and Furniture				
Depreciation	1,404	1,162	242	20.8
Other	1,308	1,127	181	16.1
Total	2,712	2,289	423	18.5
General				
Capital and business taxes	2,469	2,088	381	18.2
Deposit insurance premiums	2,452	2,254	198	8.8
Professional fees and services	2,085	1,879	206	11.0
Postage and stationery	1,117	1,059	58	5.5
Marketing and business development	1,020	984	36	3.7
Travel	709	623	86	13.8
Banking charges	686	641	45	7.0
Communications	513	484	29	6.0
Other	1,436	1,310	126	9.6
Total	12,487	11,322	1,165	10.3
Total Non-Interest Expenses	$ 41,185	$ 36,681	$ 4,504	12.3 %
Productivity Ratio				
Net interest income	$ 55,855	$ 45,414	$ 10,441	23.0 %
Other income	10,450	11,520	(1,070)	(9.3)
Total revenue	$ 66,305	$ 56,934	$ 9,371	16.5 %
Productivity Ratio (expenses as a percentage of total revenue)	62.1 %	64.4 %		

PRODUCTIVITY RATIO



TAXES

As a result of the amalgamation with B.C. Bancorp ("BCB"), in the prior year, the Bank assumed approximately $15.0 million in tax loss carryforwards, and $83.0 million in unclaimed tax deductions which are available for deduction in computing net income for tax purposes without time limitation. Of the consideration received by the BCB shareholders, $10.3 million was allocated to a deferred income tax asset which is being amortized to current income tax expense over the same period as the losses and unclaimed deductions are utilized.

The current year's tax provision includes current tax expense of $3.0 million (1997 - $1.8 million) offset by deferred tax credits of $1.1 million (1997 - $1.4 million). The current tax provision represents the amortization of a portion of the deferred tax asset acquired of $2.3 million (1997 - $876,000), large corporations tax of $454,000 (1997 - $320,000) and income tax of $317,000 (1997 - $757,000) relating to subsidiaries.

Deferred income taxes arise from current year timing differences related to claiming deductions for income tax purposes on a basis different from accounting and relate primarily to the provision for credit losses. The Bank has reasonable assurance that its net deferred income tax asset will be realized through future reversals of timing differences.

Income taxes otherwise payable by the Bank for the year ended October 31, 1998 were eliminated by utilizing approximately $7.4 million (1997 - $9.0 million) of acquired tax loss carryforwards, $14.6 million (1997 - $nil) of unclaimed deductions and $nil (1997 - $8.0 million) of tax loss carryforwards.

At October 31, 1998, the Bank has approximately $68.4 million of unclaimed deductions which are available to reduce future years' income for tax purposes. The Bank's subsidiaries have $5.9 million of tax loss carryforwards, which expire up to 2005. The tax benefit of these losses has not been recognized in income.

Table 4 – Capital Taxes
($ thousands)

	Capital Tax Rate	Capital Allocation (2)	1998	1997
British Columbia	1.00%	40%	$ 700	$ 661
Alberta	2.00% (1)	52%	1,192	949
Saskatchewan	3.25%	5%	296	193
Manitoba	3.00%	3%	143	131
Total Capital Taxes			$ 2,331	$ 1,934

(1) Capital tax for financial institutions headquartered in Alberta is limited to 10% of pre-tax net income allocated to Alberta provided that value is less than Alberta capital taxes otherwise payable. This reduction decreases on a relative basis when a financial institution's capital base totals more than $100 million and is eliminated when its capital base reaches $200 million. The Bank's taxable capital base was approximately $140 million at October 31, 1998 (1997 - $118 million).

(2) These capital allocation percentages are for the Bank only although total capital tax includes capital taxes paid in British Columbia by a subsidiary.

Capital tax for 1998 totalled $2.3 million compared to $1.9 million in 1997. The increase is primarily attributable to:

- increased capital due to the retention of earnings;
- increased profitability, which increased the Alberta capital tax;
- a legislative change in Saskatchewan which added debentures to the capital tax base; and
- a reduction of $108,000 (1997 – $70,000) in the remission amount respecting Alberta capital tax.

In 1999 capital taxes are expected to increase due to:

- increased retained earnings; and
- increased capital tax in Alberta as profitability is expected to be greater and total capital will increase further over the $100 million threshold level, thus reducing the remission.

The goods and services tax (GST) carries with it a significant cost to the Bank as it does to all financial

institutions to the extent that GST paid is not recoverable through increased service charges, increased loan costs or reduced deposit rates. This is because the majority of the Bank's activities, except leasing, loan administration and trust services, are exempt under GST legislation and thus GST cannot be charged and collected from customers as occurs in the majority of Canadian businesses. As a result, the ability to recover the GST paid on most purchased goods and services is lost. The estimated cost of unrecoverable GST during 1998 was $872,000 compared to $694,000 in 1997.

LOANS

Table 5 – Outstanding Loans by Portfolio Type and by Provincial Location of Branch

($ millions)

October 31, 1998	British Columbia	Alberta	Saskatchewan	Manitoba	Total (1)	Composition %
Loans to Individuals						
Residential mortgages	$ 161	$ 89	$ 24	$ 3	$ 277	14 %
Other	35	53	10	4	102	5
Total	196	142	34	7	379	19
Loans to Businesses						
Securities purchased under resale agreements and call loans	–	29	–	–	29	1
Commercial	257	191	8	15	471	24
Construction and real estate	408	219	26	49	702	35
Industrial	151	175	22	16	364	18
Energy	–	61	–	–	61	3
Total	816	675	56	80	1,627	81
Total Loans	$ 1,012	$ 817	$ 90	$ 87	$ 2,006	100 %
Composition %	51 %	41 %	4 %	4 %	100 %	

October 31, 1997	British Columbia	Alberta	Saskatchewan	Manitoba	Total (1)	Composition %
Loans to Individuals						
Residential mortgages	$ 118	$ 104	$ 31	$ 4	$ 257	15 %
Other	34	45	5	3	87	5
Total	152	149	36	7	344	20
Loans to Businesses						
Securities purchased under resale agreements and call loans	–	24	–	–	24	1
Commercial	233	122	6	13	374	22
Construction and real estate	361	203	27	39	630	37
Industrial	146	131	20	12	309	18
Energy	–	42	–	–	42	2
Total	740	522	53	64	1,379	80
Total Loans	$ 892	$ 671	$ 89	$ 71	$ 1,723	100 %
Composition %	52 %	39 %	5 %	4 %	100 %	

(1) This table does not include an allocation of the allowance for credit losses and deferred revenue and discounts.

Loans, as reported on the consolidated balance sheet, totalled $1.99 billion at the end of 1998 compared to $1.71 billion at the end of 1997, an increase of 16%. Highlights of the year over year changes are:

PORTFOLIO

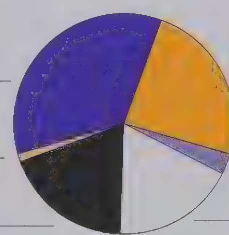
- growth in commercial loans of $97 million (26%) which represents 24% of the portfolio versus 22% one year ago;
- growth in construction and real estate loans of $72 million (11%) which represents 35% of the portfolio versus 37% a year earlier;
- an increased industrial portfolio of $55 million (18%);
- growth in the energy portfolio, a specialty in our Calgary market, of $19 million (45%); and
- growth in loans to individuals of $35 million (10%) which represents 19% of the portfolio versus 20% a year ago.

LOCATION

- loan growth of $120 million (13%) in British Columbia and $163 million (20%) in the prairie provinces; and
- a relatively constant overall percentage distribution by province.

In 1999 the Bank's business plan focuses on continued growth in all portfolios. Although the market remains competitive, especially in this low rate environment, significant overall loan growth is planned for 1999 as the Bank expands its activities.

LOANS BY PORTFOLIO



DEPOSITS

Table 6 – Deposits
($ thousands)

	1998		1997	
	Amount	% of Total	Amount	% of Total
Canadian Currency				
Personal chequing and savings	$ 82,740	4.0%	$ 78,798	4.3%
Business demand and savings	168,270	8.2	141,873	7.8
Fixed term:				
Under $100,000	1,120,740	54.4	929,712	51.2
$100,000 and over	260,499	12.6	250,393	13.8
Registered retirement products	417,792	20.3	401,831	22.1
Total	2,050,041	99.5	1,802,607	99.2
Foreign Currency (Canadian equivalent)				
Banks	–	–	7,042	0.4
Others	9,504	0.5	7,863	0.4
Total	9,504	0.5	14,905	0.8
Total Deposits	$ 2,059,545	100.0%	$ 1,817,512	100.0%

Deposits grew to $2.06 billion, an increase of 13%. The analysis of these deposits is presented in Table 6. Highlights of the year include:

- continued increases in balances in the business component of demand and savings accounts which contributes to our continuing effort to lower our overall cost of funds; and
- increased total deposits raised in our retail branches of almost 16%.

The mix of deposits by source remained relatively consistent with last year:

- branches – 45% (1997 – 45%)
- deposit agents – 50% (1997 – 48%)
- wholesale clients – 5% (1997 – 7%)

Canadian Western Trust Company ("CWT"), whose portfolio mix is included in the above numbers, does not have retail branches and so gathers most of its deposits through deposit agents, although $20.7 million of CWT's portfolio was generated through the Bank's retail branches. Retail branch deposits are generally considered to be more stable and our ongoing objective is to focus growth strategies on this source. Agent deposits are slightly more expensive because a commission is paid, but this added cost is countered by a reduced need for establishment of an extensive branch network.

DEPOSITS BY SOURCE ($ MILLIONS)

CAPITAL FUNDS AND ADEQUACY

Table 7 – Capital Structure and Regulatory Ratios at Year End
($ thousands)

	1998	1997	1998/1997 Increase (decrease)
Tier 1 Capital			
Retained earnings	$ 55,673	$ 39,476	$ 16,197
Common shares	89,595	89,057	538
Less unamortized goodwill	(520)	(593)	73
Total	144,748	127,940	16,808
Tier 2 Capital (gross)			
General allowance for credit losses (1)	2,767	2,282	485
Subordinated debentures	87,091	37,116	49,975
Total	89,858	39,398	50,460
Total	234,606	167,338	67,268
Less regulatory limitation on inclusion of debentures (2)	(14,716)	–	(14,716)
Total Regulatory Capital	$ 219,890	$ 167,338	$ 52,552
Regulatory Capital to Risk-weighted Assets			
Tier 1 capital	7.8%	8.4%	(0.6)%
Tier 2 capital	4.1%	2.6%	1.5%
Total Regulatory Capital Adequacy Ratio	11.9%	11.0%	0.9%
Assets to Regulatory Capital Multiple (3)	11.0	12.2	(1.2)

(1) Banks are allowed to include their general allowance for credit losses up to a prescribed percentage of risk-weighted assets in Tier 2 capital. The Bank has been granted an inclusion rate of .15% of risk-weighted assets.

(2) The maximum amount of subordinated debentures that can be included in Tier 2 capital for regulatory purposes is 50% of Tier 1 capital. Thus, gross Tier 2 capital is reduced by $14,716 resulting in regulatory Tier 2 capital of $75,142.

(3) Total assets plus off-balance sheet credit instruments, such as letters of credit and guarantees, less goodwill divided by total regulatory capital.

Table 8 – Risk-weighted Assets
($ thousands)

	1998 Balance	1998 Risk-weighted Balance	1997 Balance	1997 Risk-weighted Balance
Balance Sheet Assets				
Cash resources	$ 159,538	$ 31,459	$ 129,163	$ 25,662
Securities	160,867	28,208	142,720	8,510
Loans	1,989,656	1,713,087	1,710,007	1,425,868
Other assets	76,417	56,063	41,061	38,460
Total	$ 2,386,478	$ 1,828,817	$ 2,022,951	$ 1,498,500
Credit Instruments (1) (contract amounts)				
Guarantees and standby letters of credit	$ 21,457	$ 18,231	$ 24,279	$ 21,307
Commitments to extend credit (2)	638	319	1,800	1,080
Total	$ 22,095	$ 18,550	$ 26,079	$ 22,387
Derivative Financial Instruments (3) (notional amounts)				
Interest rate contracts	$ 130,000	$ 112	$ 107,000	$ 97
Foreign exchange contracts	–	–	5,489	11
Total	$ 130,000	$ 112	$ 112,489	$ 108
Total Risk-weighted Assets		$ 1,847,479		$ 1,520,995

(1) See Note 11 to the Consolidated Financial Statements for further details.
(2) Greater than one year only.
(3) See Note 15 to the Consolidated Financial Statements for further details.

The Office of the Superintendant of Financial Institutions ("OSFI") requires banks to measure capital adequacy in accordance with instructions for determining risk-adjusted capital and risk-weighted assets including off-balance sheet commitments. Based on the deemed credit risk of each type of asset a weighting of 0% to 100% is assigned. Published regulatory guidelines require banks to maintain a minimum ratio of capital to risk-weighted assets and off-balance sheet items of 8%, of which 4% must be core capital (Tier 1) and the remainder supplementary capital (Tier 2). However, OSFI strongly encourages Canadian banks to maintain a minimum total capital adequacy ratio of 10% with a Tier 1 ratio of not less than 7%. In the Bank, Tier 1 capital is comprised of common shareholders' equity and Tier 2 capital includes subordinated debentures (to the regulatory maximum amount of 50% of Tier 1 capital) and an inclusion of the general allowance for credit losses at a prescribed inclusion rate of .15% of risk-weighted assets.

Capital funds are managed in accordance with policies and plans that are regularly reviewed and approved by the Board of Directors and which take into account forecasted capital needs and markets. The goal is to maintain adequate regulatory capital to provide enough support for internally generated growth and strategic opportunities that do not otherwise require accessing the public capital markets, while still improving the return on equity through the most efficient capital mix.

At October 31, 1998 the total regulatory capital ratio coverage was 11.9% (1997 – 11.0%) of which 7.8% (1997 – 8.4%) was Tier 1 capital. Total regulatory capital increased $52.6 million over 1997 as a result of:

- earnings, net of dividends, of $16.2 million;
- a new convertible debt issue totalling $50.0 million, net of $14.7 million that is temporarily restricted from inclusion in Tier 2 capital until Tier 1 capital increases; and
- share capital of $538,000 issued upon the exercise of 58,742 stock options and conversion of $25,000 of the 6.75% debentures.

Subordinated debentures include both convertible ($74.0 million) and conventional ($13.1 million) debentures. Note 8 to the Consolidated Financial Statements details the terms of the debentures.

The Bank has share option plans that are provided as an incentive to officers and employees who are in a position to materially impact the longer term financial success of the Bank as measured by shareholder wealth. Note 9 to the Consolidated Financial Statements details the number of shares under option outstanding and the associated exercise price and dates of exercisability.

On November 4, 1998 the Bank implemented a normal course issuer bid for a twelve-month period which allows the Bank to purchase for cancellation up to 472,036 common shares, or 5% of its outstanding common shares. The bid was implemented because management considered the shares to be undervalued and viewed a repurchase program as an appropriate use of the Bank's funds.

RISK MANAGEMENT

OVERVIEW

The Bank's risk management policies continue to evolve and improve in order to accommodate the new challenges that come with growth, expansion and changes in the regulatory and public domain.

Effective risk management is central to the ability to remain strong and profitable and includes identifying, assessing, managing and monitoring all forms of risk. The Bank is primarily exposed to four basic types of risk:

- credit risk;
- liquidity risk;
- market risk; and
- operational risk.

The most senior executives are responsible for identifying risks and establishing appropriate risk management policies and frameworks. The Board of Directors, either directly or through its committees, reviews and approves the key policies, and implements specific reporting procedures to enable them to monitor ongoing compliance over significant risk areas. At least annually a report on significant internal controls is presented to the Board and the Audit Committee.

The Loans Committee of the Board, which maintains a close working relationship with the credit risk management group, is responsible for:

- the review and approval of credit risk management policies;
- loans in excess of delegated limits;
- the review and monitor of impaired and other less than satisfactory loans; and
- the recommendation of the adequacy of the allowance for credit losses to the Audit Committee.

At the operational level, the Asset Liability Committee ("ALCO") plays a key role in the management of liquidity and market risk. ALCO is a management committee chaired by the Senior Vice President, Corporate & Strategic Operations with the President and CEO and other senior executives as members and is responsible for:

- the establishment and maintenance of policies and programs for liquidity management and control, funding sources, investments, foreign exchange risk, interest rate risk and derivatives; and
- regular meetings to review compliance and discuss strategy in this area.

Asset liability management policies are approved and reviewed at least annually by the Board with quarterly status reporting provided to the Board.

The Operations Committee meets regularly and is made up of experienced bank officers from all areas of operations and is chaired by a member of senior management. This committee is responsible for developing appropriate policies and procedures, including internal controls, respecting day-to-day, routine operations.

The internal audit group performs inspections in all areas of the Bank, including CWT and CWC, and reports the results directly to senior management, the President and CEO and the Audit Committee.

CREDIT RISK MANAGEMENT

Credit risk is the risk that a financial loss will be incurred due to the failure of a counterparty to discharge its obligation to the Bank. This risk can relate to balance sheet assets, such as loans, as well as off-balance sheet assets such as guarantees and letters of credit. Exposure to a single borrower or associated borrowers is normally limited to 10% of capital funds. The current approved maximum credit exposure is $15 million excepting government risk.

The Bank employs and is committed to a number of important principles to manage credit exposures which include:

- a Loans Committee of the Board whose duties include approval of lending policies, establishment of lending limits of the Bank, the delegation of lending limits and the review of larger credits as well as quarterly reports prepared by management on watch list loans, impaired loans, the adequacy of the allowance for credit losses, environmental risk and diversification of the portfolio;
- delegated lending authorities which are clearly communicated to personnel engaged in the credit granting process, a defined approval process for loans in excess of limits and the review of larger credits by a senior management group prior to recommendation to the Loans Committee;
- credit policies, guidelines and directives which are communicated to all branches and officers whose activities and responsibilities include credit granting and risk assessment;
- appointment of personnel engaged in credit granting who are qualified, experienced bankers;
- a credit risk rating classification established for all credits and reviewed not less than annually;
- annual reviews of individual credit facilities (excepting consumer loans and residential mortgages);
- diversification of risk by client, geographic area, industry sectors and products;
- pricing of credits commensurate with risk to ensure appropriate compensation;
- management of growth within quality objectives;
- early recognition of problem accounts with utilization of a specialist in managing accounts;
- independent annual reviews of credit valuation, risk classification and credit management procedures by the internal audit group which include reporting the results to senior management, the President and CEO and the Audit Committee; and
- detailed quarterly reviews of accounts rated less than satisfactory including a watch list report recording accounts with evidence of weakness, an impaired loan report covering loans which show impairment to the point where a loss is probable, and the establishment of an action plan for each account.

Environmental Risk

The operations conducted by the Bank do not impose a material effect on the environment. However, losses can be incurred if a borrower is unable to repay loans due to environmental clean up costs, or if the Bank becomes directly liable for clean up costs if it is deemed to have taken control or ownership of a contaminated property.

Risk assessment criteria and procedures are in place to manage environmental risks and these are communicated to lending personnel. Reports on environmental inspections and findings are reviewed by senior management and reported upon quarterly to the Board.

Portfolio Quality

The Bank's strategy is to continually improve and maintain a quality portfolio. Efforts are directed towards achieving a wide diversification, engaging experienced personnel who provide a hands on approach in credit granting, account management and quick action when problems develop. The lending focus is primarily directed to small and medium-sized businesses and individuals with operations conducted in the four western provinces. Relationship banking and "know your customers" are important tenets of account management. An appropriate return on the level of risk is fundamental.

Table 9 – Change in Gross Impaired Loans
($ thousands)

	1998	1997	1998/1997 Increase (decrease)
Gross impaired loans, beginning of year	$ 21,534	$ 27,556	$ (6,022)
Net additions (reductions in impaired loans)	8,841	(1,457)	10,298
Write-offs	(4,030)	(4,565)	535
Total	$ 26,345	$ 21,534	$ 4,811
Gross Impaired Loans as a Percentage of Total Loans	1.32 %	1.26 %	0.06 %

Impaired Loans

Gross impaired loans increased $4.8 million in 1998. A specialist is engaged to focus exclusively on selected impaired loans. As shown in Table 9 gross impaired loans total $26.3 million representing 1.32% (1997 – 1.26%) of total outstanding loans.

Impaired loans net of the allowance for credit losses have increased marginally over the past year and represent a very satisfactory .68% (1997 - .53%) of net loans outstanding. The Bank expects the impaired loan trend looking forward into 1999 to be comparable with 1998.

Table 10 shows the year over year change to the allocation of the allowance for credit losses to specific provisions by category of impaired loans and to the general allowance for credit losses.

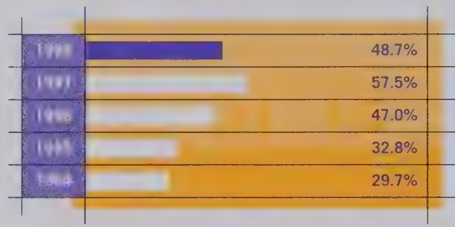
NET IMPAIRED LOANS AS A PERCENTAGE OF NET LOANS OUTSTANDING

Table 10 – Allowance for Credit Losses
($ thousands)

	1997 Ending Balance	Write-offs, net of Recoveries [1]	Provision for Credit Losses	1998 Ending Balance
Specific Provisions				
Consumer and personal	$ 476	$ (6)	$ (162)	$ 320
Real estate	825	563	1,325	1,587
Industrial	1,431	1,371	105	165
Other	2,179	1,767	1,033	1,445
General Allowance	7,476	–	1,849	9,325
Total	$ 12,387	$ 3,695	$ 4,150	$ 12,842

(1) Recoveries in 1998 totalled $334,000 (1997 - $11,000)

ALLOWANCE FOR CREDIT LOSSES AS A PERCENTAGE OF GROSS IMPAIRED LOANS



PROVISION FOR CREDIT LOSSES AS A PERCENTAGE OF AVERAGE LOANS OUTSTANDING

Allowance for Credit Losses

The allowance for credit losses consists of $3.5 million in specific provisions and $9.3 million in the general allowance for credit losses with the latter now representing 0.47% of gross outstandings and 0.54% of risk-weighted credit assets. This compares favorably with the Bank's five year loan loss average of 0.30%. The general allowance is available to cover credit losses inherent in the portfolio which are not currently identifiable on an account by account basis. An assessment of the adequacy of the general allowance is conducted quarterly and measured against the Bank's five year loan loss average. In addition, a method of applying a progressive (increasing with higher risk) loss ratio range against groups of loans of a common risk rating is utilized to test the general allowance adequacy. The general allowance would be expected to increase in strong economic times (as currently exists) and decrease in weaker economic times as provisions are identified on specific credits. OSFI will formally introduce its general allowance criteria in 1999 with application to general allowance balances for the 1999 year end and following periods. In the interim, they have encouraged federally regulated financial institutions to continue to strengthen capital and allowance levels.

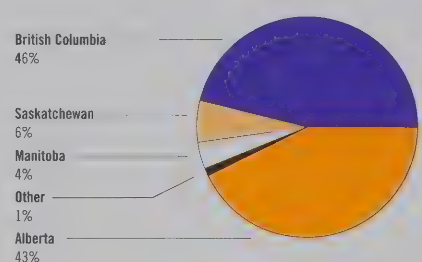
Provision for Credit Losses

The trend of improving credit quality in the portfolio is reflected in the above graph. For the year ended October 31, 1998, the provision for credit losses represented 0.22% of average loans. This improvement is further illustrated by Table 10 which shows significant growth in the general allowance. We anticipate this improvement to carry on through 1999.

Diversification of Portfolio

Total Advances Based on Location (also see Table 5)

GEOGRAPHICAL DISTRIBUTION OF LOANS



The following table illustrates the diversification in our lending operations by industry sector.

Table 11 – Total Advances Based on Industry Sector

(%) October 31	**1998**	1997
Construction	23.0%	18.2%
Consumer loans and residential mortgages	17.6	19.4
Real estate operations	14.6	22.3
Transportation and storage	6.5	5.5
Manufacturing	4.9	4.5
Hotel/motel	4.3	3.8
Oil and gas (production)	4.1	3.3
Logging/forestry	3.6	2.7
Other services	3.4	2.6
Wholesale trade	3.3	2.4
Finance and insurance	3.2	2.8
Government guaranteed	2.6	3.7
Other	8.9	8.8
Total	100.0%	100.0%

Management of the loan portfolio includes the strategy of avoiding high concentration in one geographic area or industry sector. The Bank's portfolio is well diversified with a mix of corporate and personal business. Industrial lending units are set up within branches or stand alone operations, while oil and gas lending is conducted by specialists in our Calgary market. In addition to these areas, we also have real estate divisions established in the major centres in which we operate.

LIQUIDITY RISK

Liquidity risk is the risk that the Bank will not have sufficient cash to meet its obligations as they become due. This risk arises from fluctuations in cash flows from lending, deposit taking, investing, and other activities. Effective liquidity management ensures that adequate cash is available to honour all cash outflow obligations. Maintenance of a prudent liquidity base also provides flexibility to fund loan growth and to react to other market opportunities.

The liquidity policy includes:

- measurement and forecast of cash flows;
- maintenance of a high quality pool of liquid assets;
- a stable base of core deposits from retail and commercial customers;
- limits on single deposits and sources of deposits;
- diversification of funding sources; and
- an approved contingency plan.

Key features of liquidity management are:

- daily monitoring of expected cash inflows and outflows and tracking and forecasting the liquidity position, including the flows from off-balance sheet items, on a weekly and forward three month rolling basis;
- consideration of the term structure of assets and liabilities, with emphasis on deposit maturities, as well as expected loan fundings and other commitments to provide funds when determining required levels of liquidity; and
- separate management of the liquidity position of the Bank and CWT to ensure compliance with related party and other regulatory tests.

A schedule outlining the consolidated securities portfolio at October 31, 1998 is provided in Note 2 to the Consolidated Financial Statements. A conservative policy is maintained in this area with:

- virtually all investments limited to high quality debt securities and short term money market instruments to meet objectives of liquidity management and to provide an appropriate return;
- specific investment criteria and procedures for purposes of management of the securities portfolio;
- regular review, monitoring and approval by ALCO of policies regarding these investments and annual review and approval by the Board of Directors; and
- quarterly reporting to the Board of Directors on the securities portfolio.

Table 12 – Liquid Assets
($ thousands)

	1998	1997	1998/1997 Increase (decrease)
Cash	$ 2,246	$ 854	$ 1,392
Deposits with regulated financial institutions	133,888	109,845	24,043
Cheques in transit	23,404	18,464	4,940
Total Cash Resources	159,538	129,163	30,375
Securities purchased under resale agreements and call loans	28,493	24,000	4,493
Government of Canada treasury bills	58,896	63,538	(4,642)
Government of Canada and provincial bonds term to maturity 1 year or less	32,574	10,736	21,838
Government of Canada and provincial bonds term to maturity over 1 year	41,189	59,936	(18,747)
Other marketable securities	27,937	7,490	20,447
Total Securities Purchased Under Resale Agreements/Call Loans and Marketable Securities	189,089	165,700	23,389
Total Liquid Assets	$ 348,627	$ 294,863	$ 53,764
Total Assets	$ 2,386,478	$ 2,022,951	$ 363,527
Liquid assets as a percentage of total assets	14.6%	14.6%	0.0%
Total Deposit Liabilities	$ 2,059,545	$ 1,817,512	$ 242,033
Liquid assets as a percentage of total deposit liabilities	16.9%	16.2%	0.7%

As shown in Table 12, liquid assets comprised of cash, interbank deposits, items in transit, securities purchased under resale agreements/call loans and marketable securities, totalled $349 million at October 31, 1998, an increase of $54 million from October 31, 1997. Liquid assets represented 14.6% (1997 – 14.6%) of total assets and 16.9% (1997 – 16.2%) of total deposit liabilities at that date.

Highlights of the composition of liquid assets at October 31, 1998 follow:

- maturities within one year total 87% or $304 million;
- Government of Canada treasury bills made up 17% of the book value with other Government of Canada and provincial debt securities accounting for 21% of liquid assets;
- highly rated short term commercial paper totalling $26 million is included in other marketable securities; and
- deposits with regulated financial institutions including bankers acceptances were 38% of liquid assets.

Also included in liquid assets are securities purchased under resale agreements and call loans. These are short term advances, typically no more than several days in duration, to securities dealers and either require the dealer to repurchase the securities or are secured by treasury bills or other high quality liquid securities.

During the year, deposits with financial institutions increased while holdings of treasury bills decreased in order to take advantage of the higher yielding bank paper. The amount invested in government bonds with maturities over one year was reduced in view of the flattening of the yield curve which occurred over the year.

Short term credit facilities have been arranged with a number of financial institutions. The expansion of such facilities will continue to be pursued as an additional liquidity safeguard. The government insured/guaranteed mortgage and loan portfolios also represent a potential source of liquidity.

The primary source of new funding is the issuance of deposit instruments. A summary of the deposits by maturity is presented in Tables 13 and 14.

Table 13 – Deposit Maturities Within One Year
($ millions)

	Within 1 Month	1 - 3 Months	3 Months - 1 Year	Cumulative Within 1 Year
At October 31, 1998				
Demand deposits	$ 49	$ –	$ –	$ 49
Notice deposits	209	–	–	209
Deposits payable on a fixed date	285	179	563	1,027
Total	$ 543	$ 179	$ 563	$ 1,285
At October 31, 1997				
Total	$ 507	$ 167	$ 461	$ 1,135

Table 14 – Total Deposit Maturities
($ millions)

	Within 1 Year	1 - 2 Years	2 - 3 Years	3 - 4 Years	4 - 5 Years	Non-interest Sensitive	Total
At October 31, 1998							
Demand deposits	$ 49	$ –	$ –	$ –	$ –	$ –	$ 49
Notice deposits	209	–	–	–	–	–	209
Deposits payable on a fixed date	1,027	256	257	125	137	–	1,802
Total	$ 1,285	$ 256	$ 257	$ 125	$ 137	$ –	$ 2,060
At October 31, 1997							
Total	$ 1,135	$ 211	$ 192	$ 166	$ 108	$ 6	$ 1,818

A breakdown of deposits by source is provided under the heading Deposits. Target limits by source have been established as part of the Bank's overall liquidity policy and are monitored to ensure an acceptable level of diversification in sources of funding is maintained. The Bank continues to aggressively pursue retail deposits generated through its branch network as a core funding source. However, the total dollar value of agent generated deposits will likely continue to increase even though the goal is to decrease funding from this source as a percentage of total deposit liabilities. CWT continues to raise essentially all of its deposits through agents. The Bank distributes CWT's deposit products through the Bank's branch network and at October 31, 1998, $20.7 million (1997 - $11.2 million) of CWT deposits had been raised in this manner.

MARKET RISK

Market risk is the impact on earnings resulting from changes in financial market variables such as interest rates and foreign exchange rates. Market risk arises when making loans, taking deposits and making investments. The Bank itself does not undertake trading activities and, therefore, does not have risks related to such activities as market making, arbitrage or proprietary trading. The capital company does take trading positions primarily in fixed income and money market securities. The market risks related to this activity are not considered to be material for the Bank at this time. Therefore, the Bank's material market risks are confined to interest rates and foreign exchange as discussed below.

Interest Rate Risk

Interest rate risk or sensitivity can be defined as the impact on net interest income, both current and future, resulting from a change in market interest rates. This risk and potential variability in earnings arises when cash flows associated with interest sensitive assets and liabilities have different repricing dates. The differential is commonly referred to as the interest rate gap position. Interest rate gaps arise as a result of the financial intermediation process and reflect differences in term preferences on the part of borrowers and depositors.

A positive interest rate gap exists when interest sensitive assets exceed interest sensitive liabilities for a specific maturity or repricing period. A positive gap will tend to lead to an increase in net interest income when market interest rates rise since assets are repricing earlier than liabilities. The opposite impact will occur when market interest rates fall. A negative gap is the opposite of a positive gap.

To manage interest rate risk arising as a result of the financial intermediation process, ALCO establishes policy guidelines for interest rate gap positions and meets regularly to monitor the Bank's position and decide future strategy. The objective is to manage the interest rate risk within prudent guidelines. Interest rate risk policies are approved and reviewed at least annually by the Board of Directors with quarterly reporting provided to the Board as to the gap position.

Exposure to interest rate risk is controlled by managing the size of the static gap positions between interest sensitive assets and interest sensitive liabilities for future periods. Gap analysis is supplemented by computer simulation of the asset liability portfolio structure and dollar estimates of net interest income sensitivity for periods of up to one year. The interest rate gap is measured monthly.

Table 15 shows the consolidated gap position at October 31, 1998 for selected time intervals. Comparative summary figures are given at October 31, 1997. Figures in brackets represent an excess of liabilities over assets or a negative gap position.

Table 15 – Asset Liability Gap Positions

($ millions)

	Floating Rate and Within 1 Month	1 to 3 Months	3 Months to 1 Year	Total Within 1 Year	1 Year to 5 Years	Over 5 Years	Non-interest Sensitive	Total
At October 31, 1998								
Assets								
Cash resources	$ 79	$ 33	$ 21	$ 133	$ 1	$ –	$ 26	$ 160
Securities	26	35	57	118	41	1	1	161
Loans	816	73	281	1,170	832	1	(14)	1,989
Other assets	–	–	–	–	–	–	76	76
Off-balance sheet swaps	20	20	65	105	25	–	–	130
Total	941	161	424	1,526	899	2	89	2,516
Liabilities and Equity								
Deposits	543	179	563	1,285	775	–	–	2,060
Other liabilities	5	–	–	5	–	–	89	94
Debentures	–	–	24	24	63	–	–	87
Shareholders' equity	–	–	–	–	–	–	145	145
Off-balance sheet swaps	130	–	–	130	–	–	–	130
Total	678	179	587	1,444	838	–	234	2,516
Interest Rate Sensitive Gap	$ 263	$ (18)	$ (163)	$ 82	$ 61	$ 2	$ (145)	$ –
Cumulative Gap	$ 263	$ 245	$ 82	$ 82	$ 143	$ 145	$ –	$ –
Cumulative Gap as a Percentage of Total Assets	10.5%	9.7%	3.3%	3.3%	5.7%	5.8%	(5.8)%	–
At October 31, 1997								
Total assets	$ 796	$ 124	$ 395	$ 1,315	$ 738	$ 9	$ 68	$ 2,130
Total liabilities and equity	614	167	461	1,242	709	4	175	2,130
Interest Rate Sensitive Gap	$ 182	$ (43)	$ (66)	$ 73	$ 29	$ 5	$ (107)	$ –
Cumulative Gap	$ 182	$ 139	$ 73	$ 73	$ 102	$ 107	$ –	$ –
Cumulative Gap as a Percentage of Total Assets	8.5%	6.5%	3.4%	3.4%	4.8%	5.0%	(5.0)%	–

Notes:

1. Accrued interest is excluded in calculating interest sensitive assets and liabilities.
2. Potential prepayments of fixed rate loans and early redemption of redeemable fixed term deposits have not been estimated. Redemptions of fixed term deposits where depositors have this option are not expected to be material. Deposits with a redemption option totalled approximately $47 million as at October 31, 1998. The majority of fixed rate loans, mortgages and leases are either closed or carry prepayment penalties.

The gap analysis in Table 15 is a static measurement of interest rate sensitive gaps at a specific time. These gaps can change significantly in a short period of time. The impact of changes in market interest rates on earnings will depend upon the magnitude and rate of change in interest rates as well as the size and maturity structure of the cumulative interest rate gap position and management of those positions over time.

During the year:

- the one year and under cumulative gap decreased from 3.4% of assets to 3.3%;
- the one month and under gap increased from 8.5% to 10.5%; and
- the five year and under cumulative gap increased from 4.8% to 5.7%.

Of the $1.03 billion in fixed term deposit liabilities maturing within one year from October 31, 1998, approximately $112 million (5.4% of total deposit liabilities)

are fixed term registered retirement savings plan (RRSP) deposits maturing between December 1, 1998 and April 30, 1999. The term in which these deposits and other maturing deposits are retained will have an impact on the future asset liability structure and hence interest rate sensitivity. Given the current historically low interest rate environment and recent reductions in the prime lending rate, modest demand from borrowers wishing to fix loan rates for longer terms out to five years is expected.

The effective interest rates for each class of financial asset and liability, including off-balance sheet instruments, are shown in Table 16.

Table 16 – Weighted Average Effective Interest Rates

(%)

	Floating Rate and Within 1 Month	1 to 3 Months	3 Months to 1 Year	Total Within 1 Year	1 Year to 5 Years	Over 5 Years	Total
At October 31, 1998							
Assets							
Cash resources	4.6%	5.5%	5.2%	4.9%	5.3%	–%	4.9%
Securities	5.2	5.2	5.1	5.2	5.4	5.8	5.2
Loans	8.0	7.8	7.8	8.0	7.9	8.2	7.9
Off-balance sheet swaps	4.6	5.1	5.3	5.1	5.5	–	5.2
Total	7.6	6.4	7.0	7.3	7.7	7.0	7.4
Liabilities							
Deposits	3.8	5.0	5.4	4.7	6.0	–	5.2
Debentures	–	–	7.1	7.1	5.7	–	6.1
Off-balance sheet swaps	5.4	–	–	5.4	–	–	5.4
Total	4.1	5.0	5.5	4.8	6.0	–	5.2
Interest Rate Sensitive Gap	3.5%	1.4%	1.5%	2.5%	1.7%	7.0%	2.2%
At October 31, 1997							
Total assets	6.3%	6.0%	6.6%	6.4%	8.0%	5.3%	7.0%
Total liabilities	3.0	4.5	5.0	3.9	6.3	9.0	4.8
Interest Rate Sensitive Gap	3.3%	1.5%	1.6%	2.5%	1.7%	(3.7)%	2.2%

The estimated sensitivity of net interest income to a change in interest rates is presented in Table 17. The amounts represent the estimated change in net interest income over the time period shown resulting from a one percentage point change in interest rates. If rates increase, the effect would be an increase in net interest income while the opposite would occur if rates decrease. The estimates are based on a number of assumptions/factors, which include:

- a constant structure in the asset liability portfolio;
- interest rate changes affect interest sensitive assets and liabilities by the same amount and are applied at the appropriate repricing dates; and
- no early redemptions.

The interest sensitivity of the portfolio increased in both absolute dollar terms and as a percentage of estimated future net interest income during the year, but remained well within policy guidelines.

Table 17 – Estimated Sensitivity of Net Interest Income as a Result of a One Percentage Point Change in Interest Rates

($ thousands)

Period	1998	1997
90 days	$ 585	$ 384
1 year	2,152	1,478
1 year percentage change	3.5 %	3.0 %

It is management's intention to continue to manage the asset liability structure and interest rate sensitivity through pricing and product policies to attract appropriate assets and liabilities as well as through the use of interest rate swaps or other appropriate hedging techniques (see discussion under Off-balance Sheet Financial Instruments Including Derivatives). Assets and liabilities having a term to maturity in excess of five years are subject to specific review and control and with the exception of debentures, as outlined in Note 8 to the Consolidated Financial Statements, such items were not material as at October 31, 1998.

Foreign Exchange Risk

In providing financial services to its customers, the Bank has assets and liabilities denominated in United States (U.S.) dollars. At October 31, 1998, assets denominated in U.S. dollars were 0.4% of total assets and U.S. dollar liabilities were 0.4% of total liabilities. The comparable percentages at October 31, 1997 were 0.6% and 0.8% for assets and liabilities. Currencies other than U.S. dollars are not bought or sold other than to meet specific customer needs and, therefore, the Bank has no material exposure to currencies other than U.S. dollars.

Foreign exchange risk arises when there is a difference between assets and liabilities denominated in U.S. dollars. Policy is established setting a limit on the difference between U.S. dollar assets and liabilities. The difference is measured daily and managed by use of U.S. dollar contracts or other means. Policy respecting foreign exchange exposure is reviewed and approved at least annually by the Board of Directors, and deviations from policy are reported to the Board and ALCO.

OPERATIONAL RISK

Operational risk is the potential for loss as a result of a failure in communication, information or transaction processing due to system or procedural failures, errors, natural disasters or fraudulent activities.

These risks can never be completely eliminated but the Bank's strategy to minimize operational risk includes:

- a knowledgeable and experienced management team that is committed to the Bank's risk management policies;
- regular meetings of the Operations Committee, a management committee made up of supervisory and management personnel from all operational areas and chaired by a member of senior management, which is responsible for the development and recommendation of policies and procedures regarding day to day, routine operations;
- communication of the importance of effective risk management to all levels of staff through training and policy implementation;
- regular inspections for compliance and the effectiveness of procedural controls by a strong, independent internal audit team;
- implementation of policies and procedural controls appropriate to address identified risks and which include segregation of duties and built-in checks and balances;
- use of technology via automated systems with built-in controls;
- continual review and upgrade of systems and procedures; and
- updated and tested procedures for disaster recovery and business continuity.

In addition, the external auditors report annually on the efficiency and effectiveness of internal controls over significant risk areas and provide their report to the Audit Committee. The Bank also maintains appropriate insurance coverage through a financial institution bond policy.

YEAR 2000 UPDATE

The "Year 2000 issue" is a general term used to refer to certain business implications of the arrival of the new millenium. These implications arise primarily because it has been normal practice for computer hardware and software to use only two digits rather than four to record the year in date fields. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in possible errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Potential problems may affect not only hardware and software used to process business information but also the embedded chips that control such things as office equipment, elevators and building climate and security systems.

The Bank has adopted the Office of the Superintendent of Financial Institutions Canada Year 2000 Project – Best Practices guideline as the basis for managing the Year 2000 issue. This process is summarized in five key phases as follows:

- scope and recognition of the project;
- assessment;
- development and acceptance testing phase;
- implementation phase; and
- contingency planning.

A Year 2000 project team was established in 1997 to manage the overall process and includes representatives from the trust and capital companies. A standard methodology has been adopted by all companies within the Bank's corporate family. The Bank also participates in the Canadian Bankers Association Year 2000 Interbank Working Group.

Awareness of the Year 2000 issue is high within the Bank. Quarterly reporting is provided by management to the Board and internal audit presents an independent report to the Audit Committee quarterly on the status of the project. The Bank has also engaged an independent party to review the Bank's progress toward becoming Year 2000 ready.

During the assessment phase the Bank:

- compiled a comprehensive inventory of hardware and software;
- developed priorities and timelines to direct the progress of the project;
- contacted customers, third party providers and other suppliers to determine their progress towards becoming Year 2000 ready; and
- continued to monitor the progress of the external parties.

The Bank is now well into the development and acceptance testing phase of the project and is on target for all critical internal systems to be tested and Year 2000 ready by December 31, 1998. With internal testing in its final stages, plans are well underway for the implementation and testing of the remaining critical systems/applications that are Year 2000 ready. We are working closely with the suppliers of the two critical external systems and are confident they will be able to deliver the necessary fixes within the committed time frames. Nothing significant has been identified to date to indicate that the Bank will not be ready for the turn of the century.

Work has also commenced on the contingency planning phase. The Bank is revisiting its existing business interruption contingency plans to address internal and external issues specific to the Year 2000 issue. Such revisions are expected to be completed by April 1999. These plans, which are intended to enable the Bank to continue to operate and serve its customers, may include:

- performing certain processes manually;
- obtaining alternative systems;
- changing suppliers; and
- reducing operations to only critical services.

Due to the widespread nature of the Year 2000 issue the contingency planning phase will be an ongoing one which may require further modifications as the Bank obtains additional information, through the testing and implementation phases, and on the status of third party Year 2000 readiness.

The Bank expects the Year 2000 project to be completed on a timely basis. The financial impact of this project for the Bank has not been and is not anticipated to be material to its financial position or results of operations. The majority of Year 2000 related costs are not incremental costs, but rather represent a redeployment of existing resources and are expensed as incurred. This redeployment of resources is also not expected to have a significant impact on the day-to-day operations of the Bank. Other anticipated costs represent investment in upgraded systems and will be capitalized according to existing policies.

Despite the Bank's best efforts there can be no assurance that the services provided by third parties on which the Bank relies will be Year 2000 ready on a timely basis or that any such compliance failure would not have an adverse effect on the Bank's operations or its financial results. The Bank relies on third party providers for critical services such as communications, access to the payments system, automated banking machine networks and point of sales systems.

The failure to correct a material Year 2000 problem could result in an interruption to, or a failure in, certain normal business activities or operations. Due to the general uncertainty inherent in the Year 2000 problem, the Bank is unable to determine at this time whether the consequences of Year 2000 failures will have a material impact on the Bank's results of operations, liquidity or financial position. The Year 2000 project will significantly reduce the uncertainty regarding factors within the Bank's control and with the implementation and completion of the project as scheduled, the possibility of significant interruptions of normal operations should be greatly reduced.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS INCLUDING DERIVATIVES

Table 18 – Off-balance Sheet Financial Instruments

($ thousands)

	1998	1997
Credit Instruments		
Guarantees and standby letters of credit (1)	$ 21,457	$ 24,279
Commitments to extend credit (2)	282,150	233,842
Total	$ 303,607	$ 258,121
Derivative Financial Instruments (notional amounts)		
Interest rate contracts (3)	$ 130,000	$ 107,000
Foreign exchange contracts (4)		
Purchases	–	3,237
Sales	–	2,252
Total	$ 130,000	$ 112,489
Assets Under Administration	$ 453,058	$ 395,486

(1) Letters of credit and guarantees are issued on behalf of clients to third party beneficiaries as part of normal business operations.

(2) Commitments to extend credit to customers arise in the normal course of business. Includes undrawn availability authorized under lines of credit and commercial operating loans of $121 million (1997 - $109 million) and recently authorized but unfunded loan commitments of $161 million (1997 - $125 million).

(3) Interest rate swaps are used as hedging devices to control interest rate risk. The outstanding swaps mature between November, 1998 and April, 2003. The total gross positive replacement cost of interest rate swaps was a positive $437,000 (1997 - $485,000). This market value represents an unrealized gain, or the payment the Bank would receive if these contracts were unwound and settled at that date.

(4) U.S. dollar foreign exchange contracts are used from time to time to manage the difference between U.S. dollar assets and liabilities. At October 31, 1998 there were no forward foreign exchange contracts outstanding.

More detailed information on the nature of the Bank's off-balance sheet financial instruments is shown in Notes 11, 12 and 15 to the Consolidated Financial Statements.

Continued use of interest rate swaps or other off-balance sheet hedging instruments is expected in the future for the purpose of asset liability structuring and management of interest rate risk. The Bank only enters into these off-balance sheet derivative financial instruments for its own account and does not act as an intermediary in this market. Transactions are entered into on the basis of industry standard contracts with approved counterparties subject to periodic and at least annual review. Policies regarding the use of off-balance sheet financial instruments are approved, reviewed, and monitored on a regular basis by ALCO and reviewed and approved by the Board of Directors at least annually.

Trust assets under administration, administered by a subsidiary, totalled approximately $453 million at October 31, 1998 (1997 - $395 million). These assets are primarily in self-administered RRSPs and RRIFs (registered retirement income fund). These assets, and the fees earned for their administration, are expected to increase in 1999.

INTRODUCTION

The Board of Directors and management of the Bank are committed to maintaining an effective corporate governance framework which is critical to the effective and efficient management of the Bank's operations.

The Corporate Governance & Human Resources Committee provides direction, monitors compliance and makes recommendations to the Board on the optimum approach to governance issues to enhance corporate performance.

The initiatives undertaken in the year to enhance the governance framework were as follows:

- a requirement for an annual review of the Board and committee mandates;
- addition of the Year 2000 issue to the agenda for each regularly scheduled Board meeting;
- quarterly report to the Audit Committee, from the internal audit department, on its independent review of management's progress on the Year 2000 issue;
- approval of a process for legislative compliance management including receipt of an annual report on compliance with legislative issues;
- a practice of having a time for all non-management directors to meet at each regularly scheduled meeting;
- approval of a policy for minimum shareholdings by directors; and
- conducted a Board and member review and assessment, which is to be repeated every two years.

THE BOARD AND BOARD COMMITTEES

The Bank is a federally regulated Schedule I bank. Pursuant to the Bank Act (the "Act"), no one shareholder, or shareholders acting in concert, can own more than ten percent of any class of shares of a Schedule I bank. Therefore, the Bank has no significant shareholders.

The Board is comprised of twelve members. The number of directors reflects the desire to have the members represent the geographical jurisdictions in which the Bank operates and the need to fill the memberships of the two required committees, the Audit and Conduct Review Committees, and the other board committees which are the Loans Committee and the Corporate Governance & Human Resources Committee. The Board has reviewed the status of each of its directors and determined if they are "affiliated" (as defined by the affiliation rules set forth in the Act) or "unrelated", as defined in the TSE guidelines on corporate governance. As a result of this review, the Board has determined that two of the directors are affiliated (the President and CEO and Executive Vice President); they are also the only inside directors. A third director who is a partner of the law firm which acts as general legal counsel to the Bank is not unrelated for TSE guideline purposes.

At the time of appointment to the Board, at least 75 percent of the board members must be resident Canadians and no more than four members may be employees of the Bank. The Chairman is an independent director and is appointed annually by the members of the Board. Responsibilities not delegated to senior management or to a committee of the Board remain those of the full Board. The Board expects all significant risks and internal controls to be identified and reported upon by senior management to the Board and/or its committees.

The Board holds four regular meetings each year, as well as additional meetings as required. Most committees meet quarterly and all meet annually at a minimum. A meeting agenda matrix is issued to ensure meetings of the Board and its committees are efficient and complete.

The Board of Directors as a whole has expressly assumed responsibility for developing the Bank's approach to governance issues although the Corporate Governance

& Human Resources Committee plays a key role by recommending and reporting on governance issues to the Board. In addition, certain governance issues have been delegated to other committees of the Board.

The Act contains several sections dealing with the governance of a bank through its board of directors. These sections prescribe matters such as limitations on the number of directors who can be affiliated or non-resident, certain powers that must be transacted by the full Board, and requirements to establish both an audit committee and a conduct review committee. The Act also prescribes certain minimum benchmarks for board and committee membership, quorums and the transaction of business by the Board. The three encompassing duties in the Act that form the basis for the Board's mandate are:

- to manage or supervise the management of the business and affairs of the Bank;
- to act honestly and in good faith with a view to the best interests of the Bank and exercise the care, diligence and skill that a reasonably prudent person would exercise in similar circumstances; and
- to comply with the Act, the regulations, the Bank's incorporating instrument and its by-laws.

The mandate of the Board also includes references to compliance with the Canada Deposit Insurance Corporation's ("CDIC") Standards of Sound Business and Financial Practices. Generally speaking, these practices and related standards cover all major risk areas of a bank and call for the Board at least annually to approve the policies and review the management programs associated with:

- interest rate risk management;
- securities portfolio management;
- liquidity and funding management;
- foreign exchange risk management;
- capital management;
- internal organizational and procedural controls;
- real estate appraisals; and
- credit risk management.

The areas of real estate appraisals and credit risk management have been delegated to the Loans Committee of the Board.

The mandate of the Board also specifically includes other matters which are not necessarily stated in the Act or in the CDIC standards and they are summarized as follows:

- approve the annual statement and specified returns, prior to release to the public or submission to OSFI;
- review and approve the annual strategic business plan and accompanying capital plan and financial operating budget, including capital expenditures;
- declare dividends;
- outline the content and frequency of management reports on financial operations;
- review and ratify the employment, appointment, grade levels and compensation of the top five executive employees and approve all senior officer appointments;
- review succession plans;
- review any recommendations from regulators or external auditors respecting their assessment of the effectiveness of the internal controls that come to their attention in the conduct of their work;
- ensure an independent audit/inspection function is in place to monitor the effectiveness of organizational and procedural controls;
- review and accept reports from the Audit, Conduct Review and Corporate Governance & Human Resources Committees; and
- approve loan write-offs.

AUDIT COMMITTEE

This committee is comprised of four outside directors and its mandate is summarized as follows:

- review the annual statement and report thereon to the directors before approval is given;
- review such returns as required by OSFI and report thereon to the directors before approval is given;
- require management to implement and maintain appropriate internal control procedures and review, evaluate and approve those procedures;
- review such investments and transactions of the Bank, that could adversely affect its well-being, as are brought to the committee's attention by the auditors, or an officer of the Bank or other committee of the Board;
- review the annual statement and any specified return or other transactions with the Bank's shareholders' auditors, ensuring any items of concern are duly considered;
- discuss the adequacy/effectiveness of the internal control procedures with the Vice President and Chief Inspector and review any significant findings with senior management;
- review the interim unaudited statements, as well as other related public information, before public disclosure;
- review a report from the Loans Committee of the Board, including recommendations on the adequacy of loan loss provisions and write-offs;
- review the CDIC Standards Assessment and Reporting Program (SARP) annually and report thereon to the directors before approval is given;
- review the terms of the shareholders' auditors' engagement, their level of compensation, the audit plan, any proposed changes in accounting policies, their presentation and input concerning significant risks and key estimates and judgements of management; and
- meet regularly with the internal and shareholders' auditors without management present.

CONDUCT REVIEW COMMITTEE

This committee is comprised of four outside directors, one of whom is not unrelated, and its mandate is summarized as follows:

- establish procedures to ensure disclosure of transactions with specified related parties of the Bank and, further, to review any such transactions to ensure compliance with the Act, either approving or declining the transactions, as required;
- review and approve internal policies for credit arrangements and financial services available to employees of the Bank under the regulations concerning officers and associated parties;
- monitor aggregate transactions of the Bank with directors as well as officers and their interests to ensure continued compliance with the Act with excesses brought to the Board for consideration;
- review the conduct policy on an annual basis to ensure relevance and completeness in regard to legislative requirements;
- monitor procedures for conflicts of interest, confidential information, disclosure of information and handling of customer complaints, and be satisfied that the procedures are being adhered to;
- ensure every employee, officer and Board member agrees to comply, in writing, with annual acknowledgement, with the Bank's conduct policy; and
- after each meeting provide a report to the directors on all transactions and other matters reviewed by the committee.

CORPORATE GOVERNANCE & HUMAN RESOURCES COMMITTEE

This committee is comprised of five outside directors, one of whom is not unrelated, and its mandate is summarized as follows:

- recommend to the Board appropriate structure and process required to address governance issues and maintain compliance with all corporate governance guidelines;
- review and monitor compliance with corporate governance guidelines and follow any issues as noted by the members or as reported to them by management or other directors from time to time;
- no less than annually, report to the Board on corporate governance issues and any instances of non-compliance, with appropriate recommendations;
- hire appropriate consultants, to request management to perform studies and to furnish other information as appropriate; to review such information and take such actions based thereon as appropriate;
- review and recommend to the Board the employment and appointment of the top five (5) executive employees, to establish their grade levels and compensation, as well as promotion, and to make changes in the level of compensation and grade of incumbent executive employees and officers upon reviews of their performance;
- review the position descriptions for the top five (5) executive employees, ensuring they remain current and accurate and further, to also ensure position descriptions are in place for all other executive officers;
- establish an executive compensation structure to compensate all levels of executive employees and, within such compensation structure as may at that time be in effect, to make adjustments and annual revisions as necessary;
- ensure an annual performance appraisal is completed for the President and CEO and that it is reviewed with him by the Chairman of the Board;
- establish, amend and, where appropriate, terminate:
  - programs and other personal benefits granted to executive employees;
  - incentive compensation plans and other bonus arrangements and to administer such plans and to make appropriate interpretations and determinations as required;
  - share incentive plans and similar arrangements involving the grant or sale of share options, or other benefits to employees attendant upon the issuance of securities, and, in addition, to make grants of options under any share incentive plan and generally to administer such plans, subject to necessary regulatory and shareholder approval; and
  - annuity, pension, and retirement programs for executive employees;
- review the human resource succession plan as prepared by senior management for all officers and any other senior position considered critical to operations;
- seek and recommend individuals to be considered for Board membership as required by the Board and forward their recommendations with written rationale, compared against published terms of reference, to the Board for their consideration;
- review, monitor, and make recommendations regarding new director orientation and the ongoing development of existing Board members;
- evaluate, at least bi-annually, Board membership (including composition and size) and the involvement/performance of the membership with noted concerns recorded, and brought to the attention of the committee chair, who, in conjunction with the committee, determines if further action is required;
- review and recommend to the Board the fees and other benefits to be paid to directors; and
- make recommendations to the Board regarding revisions or additions to the Board of Directors Manual.

LOANS COMMITTEE

This committee is comprised of eight directors, six of whom are unrelated. The President and CEO and the Executive Vice President, who are affiliated, inside directors, are also members. Its mandate is summarized as follows:

- review and approve a lending limit for the Bank and the President and CEO within the limits established by the Board and review such limits at least annually;
- review, approve and/or decline all credit applications for amounts in excess of delegated limits up to the limit established, not to exceed ten percent of capital;
- recommend for approval of the full Board, any loan proposals in excess of the Bank's limit;
- recommend for approval of the full Board loan proposals to directors, related entities and Bank subsidiaries;
- annually review and approve the credit risk management program and policies, including management's real estate appraisal policies and procedures, to ensure they are sound, prudent and in accordance with CDIC standards;
- review and recommend acceptance of management's recommendations for loan loss provisions and loan write-offs to the Audit Committee for their presentation to the Board; and
- review and approve action plans, as required, on loans reported by management to be less than satisfactory.

OTHER AREAS OF CONSIDERATION

The Bank has not adopted a formalized process of orientation for new Board members although all directors are provided with a Directors' Manual, outlining key governance information and reference material. It is worthy of note that seven out of the ten outside directors have served on the Board for nine years or more. There is also a Board and member review and assessment program whereby every second year directors complete a formal assessment of the operations and effectiveness of the Board and its committees. Every other year, directors complete a formal assessment on individual directors' effectiveness.

In order to carry out its responsibilities the Board must have timely access to information which is available via discussions with the Bank's senior management and through a comprehensive information package sent out prior to each board meeting which includes the agenda, minutes of previous meetings and supporting documentation for specific agenda items.

The Bank is also committed to ensuring quality and timely information is available to all shareholders. Inquiries and requests for information from shareholders and potential investors receive prompt attention from an appropriate officer. The President and CEO and other members of senior management also meet periodically with financial analysts and institutional investors.

Also, the Board has put in place a policy providing for individual directors to engage outside advisors if the circumstances are warranted.

The Bank has engaged an independent Ombudsman to receive complaints from banking clients who are unable to obtain satisfaction from the Bank's internal complaint handling mechanism.

CONCLUSION

The Bank's corporate governance approach is in compliance with the TSE guidelines. It will continue to develop over time with the Corporate Governance & Human Resources Committee playing a key role in monitoring, developing and recommending to the Board on goverance issues as warranted.

MANAGEMENT'S REPORT

The consolidated financial statements of Canadian Western Bank and related financial information presented elsewhere in this annual report have been prepared by management, who are responsible for the integrity, objectivity and reliability of the data presented, including the many amounts which must, of necessity, be based on estimates and judgements. They are prepared as stipulated by the requirements of the Bank Act and related rules and regulations issued by the Superintendent of Financial Institutions Canada. The accounting policies followed in the preparation of these financial statements conform with generally accepted accounting principles. The financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

The Bank's accounting system and related internal controls are designed, and supporting procedures are maintained, to provide reasonable assurance that financial records are complete and accurate, that assets are safeguarded and that the Bank is in compliance with all regulatory requirements. These supporting procedures include the careful selection and training of qualified staff, defined division of responsibilities and accountability for performance, and the written communication of policies and guidelines of business conduct and risk management throughout the Bank.

The system of internal controls is also supported by the internal audit division which carries out periodic inspections of all aspects of the Bank's operations. The Chief Inspector has full and free access to the Audit Committee and to the shareholders' auditors.

The Audit Committee, appointed by the Board of Directors, is composed of directors who are not officers or employees of the Bank. The committee is responsible for reviewing the financial statements and annual report and recommending them to the Board of Directors for approval. Their responsibilities also include meeting with management, the Chief Inspector and the shareholders' auditors to discuss the effectiveness of internal controls over the financial reporting process, and the planning and results of the external audit.

The Conduct Review Committee, appointed by the Board of Directors, is composed of directors who are not officers or employees of the Bank. Their responsibilities include reviewing related party transactions, and reporting to the Board of Directors, those transactions which may have a material impact on the Bank.

The Superintendent of Financial Institutions Canada, at least once a year, makes such examination and enquiry into the affairs of the Bank as he may deem necessary or expedient to satisfy himself that the provisions of the Bank Act, having reference to the safety of the creditors and shareholders of the Bank, are being duly observed and that the Bank is in a sound financial condition.

Deloitte & Touche LLP, the shareholders' auditors, are appointed by the shareholders of the Bank. They have full and free access to, and meet periodically with, the Audit Committee to discuss their audit and matters arising therefrom.

Larry M. Pollock
President and Chief Executive Officer

Tracey C. Ball, C.A.
Vice President and Chief Financial Officer

December 4, 1998

AUDITORS' REPORT

To The Shareholders of Canadian Western Bank
We have audited the Consolidated Balance Sheet of Canadian Western Bank as at October 31, 1998 and 1997 and the Consolidated Statements of Income, Changes in Shareholders' Equity and Changes in Financial Position for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

Deloitte & Touche LLP

Deloitte & Touche LLP
Edmonton, Alberta

December 4, 1998

CONSOLIDATED BALANCE SHEET

As at October 31
($ thousands)

		1998	1997
Assets			
Cash Resources			
Cash		$ 2,246	$ 854
Deposits with regulated financial institutions		133,888	109,845
Cheques and other items in transit, net		23,404	18,464
		159,538	129,163
Securities	(Note 2)		
Issued or guaranteed by Canada		98,481	106,646
Issued or guaranteed by a province		34,178	27,564
Other securities		28,208	8,510
		160,867	142,720
Loans (net of allowance for credit losses)	(Notes 3 & 4)		
Securities purchased under resale agreements and call loans		28,493	24,000
Residential mortgages		277,415	257,122
Other		1,683,748	1,428,885
		1,989,656	1,710,007
Other			
Land, buildings and equipment	(Note 5)	12,760	10,568
Other assets	(Note 6)	63,657	30,493
		76,417	41,061
Total Assets		$ 2,386,478	$ 2,022,951
Liabilities and Shareholders' Equity			
Deposits			
Payable on demand		$ 49,325	$ 40,742
Payable after notice		208,551	184,912
Payable on a fixed date		1,801,669	1,591,858
		2,059,545	1,817,512
Other			
Other liabilities	(Note 7)	94,574	39,790
Subordinated Debentures	(Note 8)		
Conventional		13,126	13,126
Convertible		73,965	23,990
		87,091	37,116
Shareholders' Equity			
Capital stock	(Note 9)	89,595	89,057
Retained earnings		55,673	39,476
		145,268	128,533
Total Liabilities and Shareholders' Equity		$ 2,386,478	$ 2,022,951

Jack C. Donald
Chairman

Larry M. Pollock
President and Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME

For the year ended October 31
($ thousands, except per share amounts)

		1998	1997
Interest Income			
Loans		$ 147,125	$ 123,374
Securities		7,718	7,305
Deposits with regulated financial institutions		3,123	1,238
		157,966	131,917
Interest Expense			
Deposits		97,775	84,314
Debentures		4,336	2,189
		102,111	86,503
Net Interest Income		55,855	45,414
Provision for credit losses	(Note 4)	4,150	4,000
Net Interest Income after Provision for Credit Losses		51,705	41,414
Other Income			
Credit related		6,729	6,423
Retail services		1,964	1,614
Trust services		1,165	1,113
Loan administration and other		526	1,459
Net gains on securities sales		66	911
		10,450	11,520
Net Interest and Other Income		62,155	52,934
Non-Interest Expenses			
Salaries and employee benefits		21,396	19,011
Premises and equipment		7,302	6,348
Other expenses		10,156	9,388
Provincial capital taxes		2,331	1,934
		41,185	36,681
Net Income before Provision for Income Taxes		20,970	16,253
Provision for income taxes	(Note 10)	1,958	416
Net Income		$ 19,012	$ 15,837
Average number of common shares outstanding		9,421,196	9,322,214
Earnings per common share	(Note 1(j))		
basic		$ 2.02	$ 1.70
fully diluted		$ 1.77	$ 1.55

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended October 31
($ thousands)

		1998	1997
Capital Stock			
Balance at beginning of year		$ 89,057	$ 75,136
Common shares issued	(Note 9)	538	13,921
Balance at end of year		89,595	89,057
Retained Earnings			
Balance at beginning of year		39,476	27,418
Net income		19,012	15,837
Dividends		(2,815)	(2,316)
Redemption of debenture		–	(1,126)
Expenses of common share issue		–	(337)
Balance at end of year		55,673	39,476
Total Shareholders' Equity		$ 145,268	$ 128,533

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended October 31
($ thousands)

		1998	1997
Cash Flows from Operating Activities			
Net income		$ 19,012	$ 15,837
Adjustments to determine net cash provided by operating activities:			
Provision for credit losses		4,150	4,000
Depreciation and amortization		2,357	1,855
Deferred income taxes, net		1,425	(531)
Gain on sale of securities, net		(66)	(911)
Change in accrued interest receivable and payable, net		6,135	(1,687)
Other items, net		2,990	564
		36,003	19,127
Cash Flows from Financing Activities			
Deposits, net		242,033	231,657
Subordinated debentures, net	(Note 8)	49,975	9,990
Common shares issued, net of issue costs	(Note 9)	538	13,584
Dividends		(2,815)	(2,316)
		289,731	252,915
Cash Flows Used in Investing Activities			
Loans, net		(283,799)	(235,912)
Securities, net		(14,044)	45,940
Interest bearing deposits with regulated financial institutions, net		(22,740)	(52,374)
Acquisition of controlling interest in Canadian Western Capital Limited	(Note 17)	(5,600)	–
Land, buildings and equipment, net		(3,739)	(2,962)
Amalgamation with B.C. Bancorp	(Note 18)	–	(13,586)
		(329,922)	(258,894)
(Decrease) Increase in Cash Resources		(4,188)	13,148
Cash Resources at Beginning of Year		31,484	18,336
Cash Resources at End of Year *		$ 27,296	$ 31,484
* **Represented by:**			
Cash resources per Consolidated Balance Sheet		$ 159,538	$ 129,163
Less interest bearing deposits with regulated financial institutions		132,242	97,679
Cash Resources at End of Year		$ 27,296	$ 31,484

October 31, 1998
(tabular amounts in thousands of dollars unless otherwise indicated)

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with subsection 308 (4) of the Bank Act which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada, the financial statements are to be prepared in accordance with generally accepted accounting principles.

The accounting principles followed by the Bank conform in all material respects with generally accepted accounting principles in Canada, including the accounting requirements of the Superintendent of Financial Institutions Canada. Of necessity, management must make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and income and expenses during the year. Actual results could differ from those estimates.

The significant accounting policies and practices followed by the Bank are:

a) Basis of Consolidation

The consolidated financial statements include the assets, liabilities and results of operations of the Bank and all of its subsidiaries, after the elimination of intercompany transactions and balances. Subsidiaries are defined as corporations whose operations are controlled by the Bank and are corporations in which the Bank owns more than 50 percent of the voting shares. See Note 19 for details of the subsidiaries.

Business acquisitions are accounted for using the purchase method. The difference between the acquisition cost of an investment and the fair value of the net identifiable assets acquired represents goodwill or other identifiable intangibles. This excess amount is deferred and amortized to income over the anticipated period of benefit, not to exceed 20 years. The unamortized balance is recorded in other assets. The carrying value of goodwill and other identifiable intangibles is evaluated regularly by reviewing the expected cash flows generated by the acquired subsidiary or asset. Any permanent impairment in value is written off to the Consolidated Statement of Income.

b) Securities

Securities are held in either the investment account or the trading account.

Investment account securities are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive. Equity securities are stated at cost or, if the value is permanently impaired, at net realizable value and debt securities at amortized cost. Gains and losses on disposal of securities and adjustments to record any permanent impairment in value are included in other income in the period of realization. Amortization of premiums and discounts are reported in interest income from securities in the Consolidated Statement of Income.

Trading account securities, which are purchased for resale over a short period of time, are carried at estimated current market value. Gains and losses realized on disposal and adjustments to market value are reported in other income in the Consolidated Statement of Income in the period during which they occur.

c) Loans

Loans are stated net of unearned income and an allowance for credit losses (Note 1(d)).

Interest income is recorded on the accrual basis except for loans classified as impaired. Loans are determined to be impaired when interest is contractually past due 90 days, or where the Bank has taken realization proceedings, or where the Bank's management is of the opinion that the loan should be regarded as impaired. An exception may be made where management determines that the loan is well secured and in the process of collection and the collection efforts are reasonably expected to result in either repayment of the loan or restoring it to a current status within 180 days from the date the payment went in arrears. All loans are classified as impaired when a payment is 180 days in arrears other than loans guaranteed or insured for both principal and interest by the Canadian government, the provinces or a Canadian government agency. These loans are classified as impaired when payment is 365 days in arrears.

Impairment is measured as the difference between the carrying value of the loan at the time it is classified as impaired and the present value of the expected cash flows (estimated realizable amount), using the interest rate inherent in the loan at the date the loan is classified as impaired. When the amounts and timing of future cash flows cannot be reliably estimated, either the fair value of the security underlying the loan, net of any expected realization costs, or the current market price for the loan may be used to measure the estimated realizable amount. At the time a loan is classified as impaired, interest income will cease to be recognized in accordance with the loan agreement, and any uncollected but accrued interest will be added to the carrying value of the loan together with any unamortized premiums, discounts or loan fees. Subsequent payments received on an impaired loan are recorded as a reduction of the recorded investment in the loan. Impaired loans are returned to performing status when the timely collection of both principal and interest is reasonably assured and all delinquent principal and interest payments are brought current and all charges for loan impairment have been reversed.

d) Allowance for Credit Losses

The Bank maintains an allowance for credit losses, the purpose of which is to keep an adequate balance sufficient to absorb credit related losses in its loan portfolio. The allowance for credit losses is deducted from the related asset category.

The balance in the account consists of specific provisions and the general allowance for credit losses. Specific provisions include all the accumulated provisions for losses on particular impaired loans required to reduce the carrying value of those loans to their estimated realizable amount. The general allowance for credit losses includes those provisions which are prudential in nature and cannot be determined on a loan by loan basis.

Actual write-offs, net of recoveries, are deducted from the allowance for credit losses. The provision for credit losses in the Consolidated Statement of Income is charged with an amount sufficient to keep the balance in the allowance for credit losses adequate to absorb all credit related losses.

e) Land, Buildings and Equipment

Land is carried at cost. Buildings, equipment and furniture, and leasehold improvements are carried at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated primarily using the straight-line method over the estimated useful life of the asset as follows: buildings – 20 years, equipment and furniture – 3 to 5 years, and leasehold improvements – term of lease. Gains and losses on disposal are recorded in other income in the Consolidated Statement of Income in the year of disposal.

f) Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing at the date of the financial statements. Revenues and expenses in foreign currencies are translated at the average exchange rates prevailing during the year. Realized and unrealized gains and losses on foreign currency positions are included in other income in the Consolidated Statement of Income.

g) Loan Fees

Loan fees, net of directly related costs, are amortized to interest income over the expected term of the loan when such fees are considered to be an integral part of the return earned on the particular loan. Loans are stated net of unamortized fees.

h) Income Taxes

The Bank follows the tax allocation method of accounting for income taxes whereby income taxes are based on transactions recognized for accounting purposes regardless of when they are recognized for tax purposes. The cumulative timing differences between tax calculated on this basis and taxes currently payable result in deferred income taxes which are recorded in other assets. Total income taxes include the provision for income taxes in the Consolidated Statement of Income and income taxes applicable to items charged or credited directly to retained earnings.

i) Interest Rate and Foreign Exchange Contracts

Interest rate and foreign exchange contracts such as futures, options and swaps are entered into to hedge interest rate and foreign currency exposures. These contracts are accounted for on the accrual basis and net accrued interest receivable/payable and deferred gains/losses are recorded in other assets or other liabilities, as appropriate. Interest income/expense and gains/losses are recognized as interest income or interest expense, as appropriate, over the hedged period.

j) Earnings per Common Share

Basic earnings per common share is calculated based on the average number of common shares outstanding during the year. Fully diluted earnings per share includes the effect of all potential dilutive factors on earnings per common share.

2. SECURITIES

The analysis of securities at carrying value, by type and maturity is as follows:

	Maturities					
	Within 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	Over 5 Years	**1998 Total Book Value**	1997 Total Book Value
Securities Issued or Guaranteed by:						
Canada	$ 81,326	$ 8,852	$ 8,303	$ –	$ 98,481	$ 106,646
A province	10,144	11,873	12,161	–	34,178	27,564
Other Debt Securities						
Floating rate notes	–	–	–	1,000	1,000	1,000
Corporate debt	25,905	–	–	–	25,905	6,490
Equity Securities	–	–	–	1,303 (2)	1,303	1,020
Total (1)	$ 117,375	$ 20,725	$ 20,464	$ 2,303	$ 160,867	$ 142,720

(1) All securities are held in the investment account.

(2) These securities have no specific maturity.

The analysis of unrealized gains and losses on investment securities is as follows:

	1998				1997			
	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value	Book Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Securities Issued or Guaranteed by:								
Canada	$ 98,481	$ 290	$ 3	$ 98,768	$ 106,646	$ 383	$ 31	$ 106,998
A province	34,178	315	3	34,490	27,564	277	–	27,841
Other Debt Securities								
Floating rate notes	1,000	–	–	1,000	1,000	–	–	1,000
Corporate debt	25,905	1	1	25,905	6,490	–	1	6,489
Equity Securities	1,303	39	–	1,342	1,020	–	–	1,020
Total	$ 160,867	$ 645	$ 7	$ 161,505	$ 142,720	$ 660	$ 32	$ 143,348

3. IMPAIRED LOANS

Impaired loans and the related allowance for credit losses are as follows:

	Gross Amount	Allowance		1998 Carrying Amount	1997 Carrying Amount
		Specific	General (1)		
Consumer and personal	$ 2,711	$ 320	$ 905	$ 1,486	$ 2,300
Real estate	13,979	1,587	4,577	7,815	4,817
Industrial	2,204	165	609	1,430	182
Other	7,451	1,445	3,234	2,772	1,848
Total (2)	$ 26,345	$ 3,517	$ 9,325	$ 13,503	$ 9,147

(1) For presentation purposes the general allowance for credit losses has been allocated to impaired loans based on a relative weighting of net impaired loans. However, this allowance is available for the total loan portfolio.
(2) Impaired loans include foreclosed real estate assets held for sale with a gross carrying value of $5,257,000 (1997 - $194,000) and a related specific allowance of $1,577,000 (1997 - $34,000).

At October 31, 1998 other past due loans totalled $nil (1997 - $309,000). Other past due loans are loans where payment of interest or principal is contractually 90 – 180 days in arrears but are not classified as impaired because they are both well secured and in the process of collection.

During the year interest recognized as income on impaired loans totalled $341,000 (1997 - $732,000).

4. ALLOWANCE FOR CREDIT LOSSES

The following table shows the allocation of the allowance for credit losses to specific provisions by category of impaired loans and to the general allowance for credit losses and the respective changes during the year.

	1997 Ending Balance	Write-offs, Net of Recoveries (1)	Provision for Credit Losses	1998 Ending Balance
Specific Provisions				
Consumer and personal	$ 476	$ (6)	$ (162)	$ 320
Real estate	825	563	1,325	1,587
Industrial	1,431	1,371	105	165
Other	2,179	1,767	1,033	1,445
General Allowance	7,476	–	1,849	9,325
Total	$ 12,387	$ 3,695	$ 4,150	$ 12,842

(1) Recoveries in 1998 totalled $334,000 (1997 - $11,000).

The Bank has virtually no loans booked outside of Canada and therefore has no country risk provisions.

5. LAND, BUILDINGS AND EQUIPMENT

	Cost	Accumulated Depreciation and Amortization	**1998 Net Book Value**	1997 Net Book Value
Land	$ 2,753	$ –	$ 2,753	$ 2,753
Buildings	3,078	1,389	1,689	1,812
Equipment and furniture	13,722	8,788	4,934	4,056
Leasehold improvements	5,771	2,387	3,384	1,947
Total	$ 25,324	$ 12,564	$ 12,760	$ 10,568

Depreciation and amortization for the year, in respect of the above buildings, equipment and furniture, and leasehold improvements amounted to $2,284,000 (1997 - $1,784,000).

6. OTHER ASSETS

		1998	1997
Due from clients and brokers		$ 31,943	$ –
Accrued interest receivable		10,170	9,189
Deferred income tax asset	(Note 10)	9,827	11,252
Prepaid expenses		5,199	5,535
Goodwill and other identifiable intangibles (1)		2,584	1,618
Deferred financing costs (2)		2,111	732
Income taxes recoverable		380	745
Other		1,443	1,422
Total		$ 63,657	$ 30,493

(1) Amortization of goodwill and other identifiable intangibles included in other expenses in the Consolidated Statement of Income is $397,000 (1997 - $352,000).

(2) Amortization of deferred financing costs included in other expenses in the Consolidated Statement of Income is $182,000 (1997 - $87,000).

7. OTHER LIABILITIES

	1998	1997
Due to clients and brokers	$ 44,656	$ –
Accrued interest payable	41,064	33,948
Accounts payable	6,034	3,870
Deferred revenue	1,119	1,374
Non-controlling interest in subsidiary	331	–
Other	1,370	598
Total	$ 94,574	$ 39,790

8. SUBORDINATED DEBENTURES

Each of the following qualifies as a bank debenture under the Bank Act and is subordinate in right of payment to all deposit liabilities. All redemptions are subject to the approval of the Superintendent of Financial Institutions Canada. The convertible debentures are financial instruments which have both debt and equity components. The recommendation issued by the Canadian Institute of Chartered Accountants to account for these components separately was considered but the value assignable to the conversion option at the date of issue was deemed to be immaterial in each case.

	Interest Rate	Maturity Date	1998	1997
Conventional (1)				
The Province of Alberta	6.660%	March 31, 2007	$ 5,000	$ 5,000
CIC Industrial Interests Inc.(an agency of the Province of Saskatchewan)	6.590%	June 30, 2007	3,126	3,126
CLIC Investments (Canada) Inc. (2)	6.415%	July 31, 2007	5,000	5,000
			13,126	13,126
Convertible				
5.50% convertible debentures (3)	5.500%	March 31, 2008	50,000	–
6.75% convertible debentures (4)	6.750%	April 15, 2006	19,965	19,990
Crown Life Insurance Company (5)	9.000%	July 31, 2004	4,000	4,000
			73,965	23,990
Total			$ 87,091	$ 37,116

(1) Each of the conventional debentures has a ten year term with a fixed interest rate for the first five years. Thereafter, if not redeemed by the Bank, interest will be payable at a rate equal to the Canadian Dollar CDOR 90 day Bankers Acceptance Rate plus 1%.

(2) Ownership of this debenture was transferred from Crown Life Insurance Company to CLIC Investments (Canada) Inc. during the year.

(3) These debentures are convertible into common shares at the option of the holder at any time prior to maturity, or the date specified for conversion by the Bank, whichever is earlier, at a conversion price of $30.50 per share. At any time after March 31, 2003 the debentures are convertible by the Bank.

(4) These debentures are convertible into common shares at the option of the holder at any time prior to maturity, or the date specified for conversion by the Bank, whichever is earlier, at a conversion price of $12.50 per share. The debentures are not convertible by the Bank prior to April 15, 1999. From April 15, 1999 to April 14, 2001, provided certain market conditions exist, the debentures are convertible by the Bank. After April 14, 2001 the debentures are convertible by the Bank at any time. In 1998, $25,000 of the debentures were converted (1997 - $10,000) by holders.

(5) This debenture is convertible into common shares, at the option of the holder, at any time prior to maturity. The Bank may redeem the debenture after July 31, 1999. The number of shares issued at conversion will be determined based on an $11 per share conversion price.

9. CAPITAL STOCK

Authorized:

An unlimited number of common shares without nominal or par value
33,964,324 Class A shares without nominal or par value
25,000,000 First Preferred shares without nominal or par value, issuable in series

Issued and fully paid:

	1998		1997	
	Number of Shares	Amount	Number of Shares	Amount
Common shares				
Outstanding at beginning of year	9,379,978	$ 89,057	8,131,782	$ 75,136
Issued on exercise of options and conversion of debentures (1)	60,742	538	129,200	1,131
Issued on amalgamation with B.C. Bancorp (Note 18)	–	–	1,118,996	12,790
Outstanding at End of Year	9,440,720	$ 89,595	9,379,978	$ 89,057

(1) In 1998, 58,742 (1997 – 128,400) options were exercised, at an exercise price of $8.73 (1997 - $8.73) and $25,000 (1997 - $10,000) of the 6.75% debentures were converted into 2,000 (1997 – 800) shares.

The Bank has subordinated debentures which are convertible to common shares of the Bank as more fully described in Note 8. The Bank also has authorized 1,145,808 common shares (1997 – 1,004,550) for issuance under option plans.

Of the amount authorized, options exercisable into 1,101,723 shares are issued and outstanding (1997 – 894,965) and all expire within ten years of date of grant. The details of and changes in the issued and outstanding options follow:

	Option Price					Number of Shares Under Option Issued
Dates Exercisable (1)	$ 8.73	$ 10.25	$ 12.93	$ 13.32 (2)	$ 19.11	and Outstanding
Currently	126,103	28,839	–	2,370	–	157,312
1999	–	–	140,000	6,970	45,750	192,720
2000	–	153,815	–	12,642	87,000	253,457
2001	–	–	140,000	4,470	87,000	231,470
2002	–	201,916	–	19,098	45,750	266,764
Total	126,103	384,570	280,000	45,550	265,500	1,101,723

(1) During the year the Corporate Governance & Human Resources Committee approved changes to the exercisable dates for several groupings of previously granted options.

(2) Represents a weighted average of option prices on dates of grants.

Number of Options	**1998**	1997
Balance at beginning of year	894,965	729,425
Issued	268,200	319,500
Exercised	(58,742)	(128,400)
Forfeited	(2,700)	(25,560)
Balance at End of Year	1,101,723	894,965

10. INCOME TAXES

The provision for income taxes consists of the following:

	1998	1997
Current	$ 3,027	$ 1,823
Deferred	(1,069)	(1,407)
Total	$ 1,958	$ 416

As outlined in Note 18, on the amalgamation of the Bank and B.C. Bancorp, the Bank acquired a deferred income tax asset relating to tax loss carryforwards and unclaimed tax deductions which together totalled $98,000,000.

Income taxes otherwise payable by the Bank for the year were eliminated by utilizing approximately $7,400,000 (1997 - $9,000,000) of acquired tax loss carryforwards, $14,623,000 (1997 - $nil) of unclaimed deductions and $nil (1997 - $7,995,000) of tax loss carryforwards.

The current tax provision represents amortization of $2,312,000 (1997 - $876,000) of the deferred tax asset acquired, large corporations tax of $454,000 (1997 - $320,000) and income tax of $317,000 (1997 - $757,000) relating to subsidiaries.

Deferred income taxes arise from current year timing differences related to claiming deductions for income tax purposes on a basis different from accounting and relate mainly to the provision for credit losses.

At October 31, 1998, the Bank has approximately $68,400,000 of unclaimed deductions which are available to reduce future years' income for tax purposes. The Bank's subsidiaries have approximately $5,895,000 in tax loss carryforwards which are available to reduce future years' income for tax purposes and expire up to 2005.

The deferred income tax asset, included in other assets, primarily represents the net unamortized balance of the deferred income tax asset acquired plus timing differences. The Bank has reasonable assurance that its net deferred income tax asset will be realized through future reversals of timing differences.

In addition, $3,781,000 (1997 - $3,781,000) of net capital losses are available to apply against future capital gains and have no expiry date.

The tax benefit of these losses has not been recognized in income.

11. CONTINGENT LIABILITIES AND COMMITMENTS

a) Off-balance Sheet Instruments

In the normal course of business, the Bank enters into various commitments and has contingent liabilities which are not reflected in the Consolidated Balance Sheet. These items are reported below and are expressed in terms of the contractual amount of the related commitment.

	1998	1997
Credit Instruments		
Guarantees and standby letters of credit	$ 21,457	$ 24,279
Commitments to extend credit	282,150	233,842
Total	$ 303,607	$ 258,121

Guarantees and standby letters of credit are issued on behalf of clients to third party beneficiaries as part of normal business operations. In the event of a call on any of these instruments, the Bank has recourse against its client. Issuance of guarantees and standby letters of credit is subject to the same credit assessment, approval, monitoring and control procedures as the extension of direct loans. Losses, if any, resulting from these transactions are not expected to be material.

Commitments to extend credit to customers also arise in the normal course of business and include recently authorized credit facilities not yet drawn down or credit facilities available on a revolving basis. In the majority of instances, availability of undrawn commercial commitments is subject to the borrower meeting specified financial tests or other covenants regarding completion or satisfaction of certain conditions precedent. It is also usual practice to include the right to review and withhold funding in the event of a material adverse change in the financial condition of the borrower. Given that undrawn credit authorizations arise out of approvals granted through the normal credit assessment process, such commitments bear virtually the same credit risk as fully advanced loan assets. From a liquidity perspective, undrawn credit authorizations will be funded over time with draws in many cases extending over a period of months. In some instances authorizations are never advanced or may be reduced because of changing requirements. The balance of commitments to extend credit shown in the table above does not account for principal drawdowns or paybacks that occur in the normal course of operations. Revolving credit authorizations are subject to repayment which on a pooled basis also decreases liquidity risk.

b) Lease Commitments

The Bank has obligations under long-term non-cancellable leases for the rental of premises and office equipment. Minimum future lease commitments for each of the five succeeding years and thereafter are as follows:

1999	$ 3,100
2000	2,965
2001	2,994
2002	2,783
2003	2,235
2004 and thereafter	10,252
Total	$ 24,329

c) Uncertainty Due to the Year 2000 Issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

12. TRUST ASSETS UNDER ADMINISTRATION

Trust assets under administration of $453,058,000 (1997 - $395,486,000) represent assets held for personal and corporate clients, administered by a subsidiary, and are kept separate from the subsidiary's own assets. Trust assets under administration are not reflected in the Consolidated Balance Sheet.

13. RELATED PARTY TRANSACTIONS

The Bank makes loans, primarily residential mortgages, to its officers and employees at various preferred rates and terms. The total amounts outstanding for these type of loans are $15,401,000 (1997 - $12,796,000).

14. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value represents the estimated consideration that would be agreed upon in a current transaction between knowledgeable, willing parties who are under no compulsion to act. The best evidence of fair value is a quoted market price. However, most of the Bank's financial instruments lack an available trading market as they are not typically exchanged. Therefore, these instruments have been valued assuming they will not be sold, using present value or other suitable techniques, and are not necessarily representative of the amounts realizable in an immediate settlement of the instrument.

Changes in interest rates are the main cause of changes in the fair value of the Bank's financial instruments. The carrying value of the majority of the financial instruments is not adjusted to reflect increases or decreases in fair value due to interest rate changes as the Bank's intention is to realize their value over time by holding them to maturity. The carrying value of financial instruments held for trading purposes would be continually adjusted to reflect fair value. At October 31, 1998 and 1997 there were no financial instruments held for trading purposes.

The table below sets out the fair values of on-balance sheet financial instruments and derivative instruments using the valuation methods and assumptions referred to below the table.

		1998			1997	
	Book Value	Fair Value	Fair Value Over Book Value	Book Value	Fair Value	Fair Value Over Book Value
Assets						
Cash resources	$ 159,538	$ 159,538	$ –	$ 129,163	$ 129,163	$ –
Securities (Note 2)	160,867	161,505	638	142,720	143,348	628
Loans	1,989,656	1,992,486	2,830	1,710,007	1,726,335	16,328
Other assets (1)	52,677	52,677	–	18,648	18,648	–
Liabilities						
Deposits	2,059,545	2,087,722	28,177	1,817,512	1,845,767	28,255
Other liabilities	94,574	94,574	–	39,790	39,790	–
Subordinated debentures	87,091	88,737	1,646	37,116	39,387	2,271
Off-balance Sheet Derivative Financial Instruments						
Net asset (Note 15)			$ 333			$ 484

The table does not include assets and liabilities that are not considered financial instruments, such as land, buildings and equipment.

(1) Other assets exclude goodwill and deferred income taxes which are not financial instruments.

(2) For further commentary on interest rates associated with financial assets and liabilities, including off-balance sheet instruments, refer to the Market Risk section of Management's Analysis of Operations and Financial Condition which includes the asset liability gap position and effective interest rates.

The methods and assumptions used to estimate the fair values of on-balance sheet financial instruments are as follows:

- cash resources, other assets and other liabilities are assumed to approximate their carrying values, due to their short-term nature;
- securities are assumed to be equal to the estimated market value of securities provided in Note 2. These values are based on quoted market prices, if available. Where a quoted market price is not readily available, other valuation techniques are used to estimate fair value;
- loans reflect changes in the general level of interest rates which have occurred since the loans were originated and are net of the allowance for credit losses. For floating rate loans, fair value is assumed to be equal to book value as the interest rates on these loans automatically reprice to market. For all other loans, fair value is estimated by discounting the expected future cash flows of these loans at current market rates for loans with similar terms and risks;
- deposits with no stated maturity are assumed to be equal to their carrying values. The estimated fair values of fixed rate deposits are determined by discounting the contractual cash flows at current market rates for deposits of similar original terms; and
- the fair values of subordinated debentures and liabilities of subsidiaries, other than deposits included in other liabilities are determined by reference to current market prices for debt with similar terms and risks.

Fair values are based on management's best estimates based on market conditions and pricing policies at a certain point in time. The estimates are subjective and involve particular assumptions and matters of judgement and as such may not be reflective of future fair values.

15. INTEREST RATE AND FOREIGN EXCHANGE OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

Interest rate swaps and interest rate floors (or caps) are used as hedging devices to control interest rate risk. The Bank only enters into these interest rate derivative instruments for its own account and does not act as an intermediary in this market. The credit risk is limited to the amount of any adverse change in interest rates applied on the notional contract amount should the counterparty default. The principal amount is not exchanged and hence is not at risk. Approved counterparties and maximum notional limits are established and monitored by the Asset Liability Committee of the Bank.

At the present time it is policy to undertake foreign exchange transactions only for the purposes of meeting needs of clients and of day to day business. Foreign exchange markets are not speculated in by taking a trading position in currencies. Maximum exposure limits are established and monitored by the Asset Liability Committee and are defined by allowable unhedged amounts. The position is managed within the allowable target range by spot and forward transactions or other hedging techniques. Exposure to foreign exchange risk is not material to the Bank's overall position.

The following table summarizes the off-balance sheet financial instrument portfolio and the related credit risk. The replacement cost represents the cost of replacing, at current market rates, all contracts with a positive fair value. The future credit exposure represents the potential for future changes in value and is based on a formula prescribed by the Office of the Superintendent of Financial Institutions ("OSFI"). The credit risk equivalent is the sum of the future credit exposure and the replacement cost. The risk-weighted balance represents the credit risk equivalent weighted according to the credit worthiness of the counterparty as prescribed by OSFI.

	1998					1997				
	Notional Amount	Replacement Cost	Future Credit Exposure	Credit Risk Equivalent	Risk-weighted Balance	Notional Amount	Replacement Cost	Future Credit Exposure	Credit Risk Equivalent	Risk-weighted Balance
Interest Rate Contracts										
Interest rate swaps	$130,000	$ 437	$ 125	$ 562	$ 112	$107,000	$ 485	$ 0	$ 485	$ 97
Foreign Exchange Contracts										
Forward exchange contracts	–	–	–	–	–	5,489	0	55	55	11
Total	$130,000	$ 437	$ 125	$ 562	$ 112	$112,489	$ 485	$ 55	$ 540	$ 108

The following table shows the off-balance sheet financial instruments split between those contracts that have a positive fair value (favourable contracts) and those that have a negative fair value (unfavourable contracts).

	1998				1997			
	Favourable Contracts (Assets)		Unfavourable Contracts (Liabilities)		Favourable Contracts (Assets)		Unfavourable Contracts (Liabilities)	
	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
Interest Rate Contracts								
Interest rate swaps	$ 85,000	$ 437	$ 45,000	$ 104	$ 107,000	$ 485	$ –	$ –
Foreign Exchange Contracts								
Forward exchange contracts	–	–	–	–	–	–	5,489	1
Total	$ 85,000	$ 437	$ 45,000	$ 104	$ 107,000	$ 485	$ 5,489	$ 1

The aggregate contractual or notional amount of the off-balance sheet financial instruments on hand, the extent to which instruments are favourable or unfavourable and, thus, the aggregate fair values of these financial assets and liabilities can fluctuate significantly from time to time. The average fair values of the off-balance sheet financial instruments on hand during the year are set out in the following table.

	1998	1997
Favourable off-balance sheet financial instruments (assets)	$ 131	$ 686
Unfavourable off-balance sheet financial instruments (liabilities)	$ 267	$ 6

The following table summarizes maturities of off-balance sheet financial instruments and weighted average interest rates paid and received on interest rate contracts.

	1998				1997	
	Maturity				Maturity	
	1 year or less		Over 1 to 5 years		1 year or less (2)	
	Notional Amount	Contractual Interest Rate (1)	Notional Amount	Contractual Interest Rate (1)	Notional Amount	Contractual Interest Rate (1)
Interest rate contracts						
Interest rate (fixed/floating) swaps						
Receive fixed amounts (3)	$ 105,000	5.18 %	$ 25,000	5.50 %	$ 107,000	4.54 %
Foreign exchange contracts						
Deliver Canadian dollars						
in exchange for United States dollars	–		–		3,237	
Deliver United States dollars						
in exchange for Canadian dollars	–		–		2,252	
	–		–		5,489	
Total	$ 105,000		$ 25,000		$ 112,489	

(1) Not applicable for foreign exchange contracts.

(2) There were no instruments with maturities over one year.

(3) The Bank pays (floating) interest amounts based on the one month (30 day) Canadian bankers' acceptance rate.

16. RISK MANAGEMENT

As part of the Bank's risk management practices, the risks that are significant to our business are identified, monitored and controlled. These risks include credit risk, liquidity risk, market risk, and operational risk. Descriptions of the nature of these risks and how they are managed is provided in the commentary on pages 35 to 47 of Management's Analysis of Operations and Financial Condition.

Information on specific measures of risk included in the consolidated financial statements is included in these notes for the allowance for credit losses, derivative financial instruments and fair value of financial instruments. Additional information on interest rate sensitivity and the effective interest rates on financial instruments is provided on pages 42 to 45 of Management's Analysis of Operations and Financial Condition.

17. ACQUISITION OF CANADIAN WESTERN CAPITAL LIMITED

On January 16, 1998 the Bank invested an additional $3,000,000 to acquire a 73% interest in the common shares of Canadian Western Capital Limited (formerly Majendie Charlton Securities Ltd.) for a total cash investment of $3,724,000. The acquisition was accounted for using the purchase method. The results of operations of the acquired business are included in the Consolidated Statement of Income from that date to September 30, 1998, its fiscal year end.

At the effective date of acquisition there were assets and liabilities of:

Assets Acquired	
Cash and securities	$ 13,985
Other assets	25,022
	39,007
Liabilities Assumed	
Other liabilities	34,375
Net Assets	$ 4,632
Less non-controlling interest	908
Net Assets Acquired	$ 3,724

Included in other assets is an allocation of $1,301,000 of the total cash investment which represents values assigned to regulatory licenses and tax loss carryforwards at the time of acquisition.

On October 30, 1998 the Bank invested an additional $2,600,000 as a result of a further recapitalization of the company and now holds an 80% interest.

18. AMALGAMATION WITH B.C. BANCORP

The Bank and B.C. Bancorp ("BCB") were issued letters patent of amalgamation by the Secretary of State (International Financial Institutions) Finance on behalf of the Minister of Finance, amalgamating and continuing the banks as one bank under the name of Canadian Western Bank ("CWB"), effective November 1, 1996. The amalgamation was accounted for using the purchase method. Total consideration received by the shareholders of BCB was $13,586,000 and at the date of amalgamation, BCB had assets and liabilities of:

Assets Acquired		
Cash and securities	$	3,691
Deferred income tax asset		10,294
Other assets		34
		14,019
Liabilities Assumed		
Accounts payable and accrued liabilities		433
Net Assets Acquired	**$**	**13,586**

The deferred income tax asset represented the allocation of the consideration paid by the Bank to tax loss carryforwards and unclaimed tax deductions, totalling $98,000,000, approximately $83,000,000 of which is available to the amalgamated Bank to be claimed to reduce future years' taxable income without any time limitation. This asset, net of accumulated amortization, is included in other assets in the Consolidated Balance Sheet.

On amalgamation, the shareholders of BCB were deemed to receive Class A shares of the amalgamated Bank in exchange for their common shares of BCB on a one for one basis. Each holder of the Class A shares had the option of retracting their shares for cash of $0.40 per share or converting their shares into the equivalent amount of CWB common shares which was .035 common share of CWB for each 1 Class A share. Cash of $796,000 was paid for retracted shares and approximately 1,119,000 CWB common shares with a value of $12,790,000 were issued on conversion with effect as of November 1, 1996. Costs attributed to the issue of the shares were charged to retained earnings.

19. SUBSIDIARIES

Canadian Western Bank Subsidiaries
(annexed in accordance with subsection 308 (3) of the Bank Act)
October 31, 1998

	Address of Head Office	Carrying Value of Voting Shares Owned by the Bank (1)	Percentage of Issued and Outstanding Voting Shares Owned by the Bank
Canadian Western Trust Company	666 Burrard Street Vancouver, British Columbia	$ 17,563	100 %
CWB Canadian Western Financial Ltd.	10303 Jasper Avenue Edmonton, Alberta	$ 11	100 %
Canadian Western Capital Limited	666 Burrard Street Vancouver, British Columbia	$ 4,720	80 %

(1) The carrying value of voting shares is stated at the Bank's equity in the investments.

20. SEGMENTED INFORMATION

The Bank operates principally in personal and commercial banking in Canada.

Executive Officers

CHAIRMAN
Jack C. Donald

OFFICE OF THE CHIEF EXECUTIVE OFFICER
Larry M. Pollock
President and Chief Executive Officer

Douglas R. Dalgetty
Executive Vice President

CREDIT RISK MANAGEMENT
Lawrence W. Hanson
Senior Vice President

Donald C. Kemp
Vice President

Dennis M. Crough
Assistant Vice President, Retail Credit

Chris H. Fowler
Assistant Vice President

A. Wayne MacInnes
Assistant Vice President

Wally N. Streit
Assistant Vice President

CORPORATE AND STRATEGIC OPERATIONS
William J. Addington
Senior Vice President

Erwin Granson
Assistant Vice President,
Asset Management

Ed E. Rudzitis
Assistant Vice President

TREASURY AND OPERATIONS
Allister J. McPherson
Senior Vice President,
Treasury & Operations

Ricki L. Moffat
Senior Assistant Vice President,
Treasury & Agent Administration

Michael Vos
Senior Assistant Vice President,
Systems

M. Wayne Bond
Assistant Vice President,
Corporate Administration

Roger J. Pogue
Assistant Vice President, Operations

FINANCE
Tracey C. Ball, C.A.
Vice President and Chief Financial Officer

Diane M. Davies, C.A.
Assistant Vice President

Diane L. Kerley, C.M.A.
Assistant Vice President

HUMAN RESOURCES
Uve Knaak
Senior Assistant Vice President

INTERNAL AUDIT
David R. Gillespie
Vice President and Chief Inspector

Lars K. Christensen
Assistant Vice President

MARKETING AND PRODUCT DEVELOPMENT
R. Graham J. Gilbert
Vice President

COMMERCIAL BANKING PRAIRIE REGION
S. Wayne Bamford
Vice President and Regional Manager

Gus W. Itzek
Senior Assistant Vice President,
Energy Lending
Main Branch, Calgary

Robert H. Bean
Assistant Vice President
Winnipeg

Michael N. Halliwell
Assistant Vice President
Main Branch, Calgary

Ken R. MacDonald
Assistant Vice President
Regina

Donald J. Odell
Assistant Vice President
Red Deer

Dean F. Rhoden
Assistant Vice President
Saskatoon

Al Steingart
Assistant Vice President
Chinook Station, Calgary

COMMERCIAL BANKING NORTHERN ALBERTA REGION
Jack C. Wright
Vice President and Regional Manager

William A. Book
Senior Assistant Vice President
Main Branch, Edmonton

Ron S. Baker
Assistant Vice President
West Point, Edmonton

David M. Castell
Assistant Vice President
Main Branch, Edmonton

Keith F. Garbutt
Assistant Vice President
Southside, Edmonton

Gary R. Mitchell
Assistant Vice President
103rd Street, Edmonton

Jake G. Muntain
Assistant Vice President
103rd Street, Edmonton

Garnett J. Way
Assistant Vice President
Real Estate Lending
Main Branch, Edmonton

COMMERCIAL BANKING BRITISH COLUMBIA REGION
Rod W. Sorbo
Senior Assistant Vice President
Regional Office, Vancouver

Robert G.P. Berzins
Assistant Vice President
Granville & 13th, Vancouver

Barry T. Butler
Assistant Vice President
Nanaimo

Ian G. Graham
Assistant Vice President
Kelowna

Gerald W. Laliberte
Assistant Vice President
Victoria

Craig Martin
Assistant Vice President
Guildford, Surrey

REAL ESTATE LENDING VANCOUVER
Raymond L. Young
Vice President

Jack B. Harms
Assistant Vice President

Robert E. Wigmore
Assistant Vice President

INDUSTRIAL LENDING AND LEASING
Donald C. Watson
Vice President

James O. Burke
Assistant Vice President
Chinook Station, Calgary

Dean G. Cudmore
Assistant Vice President
Guildford, Surrey

James S. Kitchin
Assistant Vice President
Kelowna

David B. Subject
Assistant Vice President
Nanaimo

CANADIAN WESTERN TRUST COMPANY – VANCOUVER
Richard R. Mackin
Vice President,
Administration

Paul W. Trapp
Vice President,
Marketing

Kenneth C. Tabor
Vice President,
Mortgage Lending

William Pearce
Senior Assistant Vice President,
Trust Division

Mario V. Furlan
Assistant Vice President,
Real Estate Lending

Patrick F. Rennison
Assistant Vice President,
Real Estate Lending

OMBUDSMAN
W. Paul Lefaivre

Board of Directors

CANADIAN WESTERN BANK & TRUST

Charles R. Allard[2,3]
President
WIC Premium Television Ltd.
Edmonton, Alberta

Albrecht W. A. Bellstedt[3,4]
Partner
Fraser Milner
Calgary, Alberta

Douglas R. Dalgetty[2]
Executive Vice President
Canadian Western Bank
Vancouver, British Columbia

Jack C. Donald[2,4]
President
Parkland Industries Ltd.
Red Deer, Alberta

Jordan L. Golding[1]
Corporate Director and Consultant
Retired Partner
KPMG Peat Marwick
Boston, Massachusetts, USA

Allan W. Jackson[2,3,4]
President
ARCI Ltd.
Calgary, Alberta

Robert A. Manning[1,2,4]
President
Cathton Holdings Ltd.
Edmonton, Alberta

Gerald A.B. McGavin[1,2]
President
McGavin Properties Ltd.
Vancouver, British Columbia

Howard E. Pechet[2,4]
President
Mayfield Consulting Inc.
La Jolla, California, USA

Larry M. Pollock[2]
President and Chief Executive Officer
Canadian Western Bank
Edmonton, Alberta

Alan M. Rowe, C.A.[1]
Senior Vice President and
Chief Financial Officer
Crown Life Insurance Company
Regina, Saskatchewan

Arnold J. Shell[1,3]
President
Arnold J. Shell Consulting Inc.
Calgary, Alberta

[1] Audit Committee Member
[2] Loans Committee Member
[3] Conduct Review Committee Member
[4] Corporate Governance & Human Resources Committee Member

DIRECTORS EMERITUS

John Goldberg
Arthur G. Hiller
Peter M.S. Longcroft
Dr. Maurice W. Nicholson
Alma M. McConnell
Eugene I. Pechet
Dr. Maurice M. Pechet
Gordon V. Rasmussen
Fred Sparrow
Robert J. Turnbull

Shareholder Information

Head Office
Suite 2300,
Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, Alberta T5J 3X6
Telephone: (780) 423-8888
Fax: (780) 423-8897
Website: www.cwbank.com

Subsidiary Head Offices
Canadian Western Trust Company
22nd Floor, 666 Burrard Street
Vancouver, B.C. V6C 2X8
Telephone: (604) 669-0081
Fax: (604) 685-9997
Website: www.cwt.ca

Canadian Western Capital Limited
33rd Floor, 666 Burrard Street
Vancouver, B.C. V6C 2X8
Telephone: (604) 682-6446
Fax: (604) 662-8594

Stock Exchange Listings
Share Symbol: CWB
Convertible Debenture Symbols:
CWB.DB
CWB.DB.A

Common Shares Listed on
The Toronto Stock Exchange
The Alberta Stock Exchange
The Vancouver Stock Exchange

Transfer Agent and Registrar Mailing Address
Montreal Trust
Concourse Level
10050 Jasper Avenue
Edmonton, Alberta T5J 1V7
Telephone: (780) 448-7598
Fax: (780) 426-4032

Corporate Secretary
Charles R. Allard
WIC Premium Television Ltd.
Edmonton, Alberta

Normal Course Issuer Bid
The Bank implemented a normal course issuer bid for a twelve month period ending November 3, 1999. Any shareholder wishing to obtain a copy of the Notice of Intention to make a Normal Course Issuer Bid, at no charge, should contact the Head Office of the Bank directly. See the Capital Funds and Adequacy section of Management's Analysis of Operations and Financial Condition included in this Annual Report for more information.

Inquiries From Shareholders
Any notification regarding change of address or change in registration of shares should be directed to the Transfer Agent. Any inquiries other than change of address or change in registration may be directed to the President and Chief Executive Officer.

Annual Meeting
The annual meeting of the common shareholders of Canadian Western Bank will be held on March 11, 1999 at The Westin (Manitoba Room), 10135 - 100th Street, Edmonton, Alberta at 2:00 p.m. (MST).

Banking Offices

ALBERTA

Edmonton

Edmonton Main Branch
11350 Jasper Avenue
Edmonton, Alberta T5K 0L8
(780) 424-4846
Branch Manager – Bill Book

103rd Street Branch
Canadian Western Bank Place
10303 Jasper Avenue
Edmonton, Alberta T5J 3N6
(780) 423-8801
Branch Manager – Jake Muntain

Southside Branch
7933 - 104 Street
Edmonton, Alberta T6E 4C9
(780) 433-4286
Branch Manager – Heinz Kleist

West Point Branch
17603 - 100 Avenue
Edmonton, Alberta T5S 2M1
(780) 484-7407
Branch Manager – Ron Baker

RSP Administration/ Agent Processing Centre
Suite 2200, 10303 Jasper Avenue
Edmonton, Alberta T5J 3X6
(780) 423-8888
Branch Manager – Lina Langford

Calgary

Calgary Main Branch
606 - 4th Street S.W.
Calgary, Alberta T2P 1T1
(403) 262-8700
Branch Manager – Michael Halliwell

Calgary Northeast Branch
2810 – 32nd Avenue N.E.
Calgary, Alberta T1Y 5J4
(403) 250-8838
Branch Manager – Richard Brodeur

Chinook Station
6606 MacLeod Trail S.W.
Calgary, Alberta T2H 0K6
(403) 252-2299
Branch Manager – Al Steingart

Camrose

4895 - 50th Street
Camrose, Alberta T4V 1P6
(780) 672-7769
Branch Manager – Bill Wachko

Red Deer

5013 - 49 Avenue
Red Deer, Alberta T4N 3X1
(403) 341-4000
Branch Manager – Don Odell

Lethbridge

744 - 4th Avenue South
Lethbridge, Alberta T1J 0N8
(403) 328-9199
Branch Manager – Donald Grummett

Grande Prairie Industrial Lending Centre

5th Floor, 214 Place
9909 - 102 Street
Grande Prairie, Alberta T8V 2V4
(780) 831-1888
Branch Manager – Kevin MacMillen

BRITISH COLUMBIA

Vancouver

Regional Office and Business Lending Office
22nd Floor, 666 Burrard Street
Vancouver, B.C. V6C 2X8
(604) 669-0081

Dunsmuir Branch
888 Dunsmuir Street
Vancouver, B.C. V6C 3K4
(604) 688-8711
Branch Manager – John Cedervall

Granville & 13th Branch
2899 Granville Street
Vancouver, B.C. V6H 3J4
(604) 730-8818
Branch Manager – Rob Berzins

RSP Administration/ Agent Processing Centre
Suite 1035, Two Bentall Centre
555 Burrard Street
Vancouver, B.C. V7X 1M8
(604) 685-6306
1-800-663-1000
Branch Manager – Huguette Holmes

Courtenay

470 Puntledge Road
Courtenay, B.C. V9N 3R1
(250) 334-8888
Branch Manager – Alan Dafoe

Kamloops Industrial Lending Centre

2155 Westsyde Road
Kamloops, B.C. V2B 7C3
(250) 554-8030
Account Manager – Harold Lavack

Kelowna

387 Bernard Avenue
Kelowna, B.C. V1Y 6N6
(250) 862-8008
Branch Manager – Ian Graham

Nanaimo

#101, 6475 Metral Drive
Nanaimo, B.C. V9T 2L9
(250) 390-0088
Branch Manager – Barry Butler

Victoria

1201 Douglas Street
Victoria, B.C. V8W 2E6
(250) 383-1206
Branch Manager – Gerry Laliberte

Guildford Industrial Lending Centre, Surrey

401, 15127 - 100 Avenue
Surrey, B.C. V3R 0N9
(604) 583-7500
Branch Manager – Dean Cudmore

SASKATCHEWAN

Regina

1881 Scarth Street
McCallum Hill Centre II
Regina, Saskatchewan S4P 4K9
(306) 757-8888
Branch Manager – Ken MacDonald

Saskatoon

244 - 2nd Avenue S.
Saskatoon, Saskatchewan S7K 1K9
(306) 477-8888
Branch Manager – Dean Rhoden

Yorkton

#45, 277 Broadway Street E.
Yorkton, Saskatchewan S3N 3G7
(306) 782-1002
Branch Manager – Barb Apps

MANITOBA

Winnipeg

234 Portage Avenue
Winnipeg, Manitoba R3C 0B1
(204) 956-4669
Branch Manager – Robert Bean

CANADIAN WESTERN BANK

CANADIAN WESTERN BANK PLACE
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10303 JASPER AVENUE
EDMONTON, ALBERTA
T5J 3X6

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